



Through Courier

Before The Director (Market Supervision & Registration Department)

In the matter of Show Cause Notice issued to Mr. Irfan Ismail

Under Section 15E (3) of the Securities & Exchange Ordinance, 1969

*Date of Hearing:*

(i) May 08, 2013

(ii) May 23, 2013

*Present at Hearing:*

*Mr. Aamir*

*Authorized Representative*

*Assisting the Director (MSRD)*

*Ms. Tayyaba Nisar*

*Assistant Director*

### ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice ("SCN") bearing No. 1(14)ISMAILIQBAL/MSW/SMD/2013/02 dated April 23, 2013 under Section 15E(3) of the Securities & Exchange Ordinance, 1969 ("the Ordinance") issued by the Securities and Exchange Commission of Pakistan ("the Commission") to Mr. Irfan Ismail ("the Respondent").
2. At the outset, it is imperative to give an account of the facts relating to the case. The Respondent was employed at Elixir Securities Pakistan (Pvt) Limited ("Elixir"), Broker/Trading Right Entitlement Certificate Holder of the Karachi Stock Exchange Limited ("KSE"), in the capacity of KATS Operator. As a part of his employment he was responsible for the execution of orders of the Foreign Clients of Elixir.
3. On perusal of trading data of Karachi Automated Trading System of KSE, it was observed that Mr. Aamir ("Aamir") traded extensively in the shares of various companies during the Period from May 01, 2012 till April 17, 2013 ("the Period"). It is pertinent to mention that trading in



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

the account of the Aamir was conducted through Ismail Iqbal Securities (Pvt) Limited (“IIS”), Broker/ Trading Right Entitlement Certificate Holder of KSE.

4. The analysis of trading pattern of Aamir during the Period indicated that his trading was carried out significantly in correlation with the trading of the Foreign Clients of Elixir, later termed as “Foreign Clients”.
5. The detailed analysis of trading by Aamir was performed which signified the following facts:
  - (i) He was a day trader and squared his position by day end or by next day.
  - (ii) A significant portion of his trading was in correlation with the Foreign Clients where his trading completely or partially matched with the Foreign Clients.
  - (iii) On average 98% of trading by Aamir matched with the trading of Foreign Clients out of his total trading activity on the specific dates when his trading was in correlation with the Foreign Clients.
  - (iv) Scrutiny of order level data showed that Aamir used to place orders to trade in the shares of companies around the same time when the Foreign Clients were placing orders to purchase/sale shares of the same companies through Elixir.
  - (v) A significant majority of trading in the account of Aamir was directly synchronized with the placement of orders and trading of Foreign Clients of Elixir which resulted in matching of transactions.
6. The scrip-wise trading by Aamir and the consequent profit earned is enumerated in the Table -1 below:

Table - 1

Sr.	Company Name	BOT_QTY (shares)	SOLD_QTY (Shares)	Profit (Rs.)
1	Engro Corporation Limited	71,100	71,100	68,759
2	Fauji Fertilizer Bin Qasim Limited	50,000	50,000	23,810
3	MCB Bank Limited	261,400	261,400	325,312
4	National Bank of Pakistan	200,000	200,000	58,375
5	National Refinery Limited	20,000	20,000	82,839
6	Oil & Gas Development Company Limited	279,500	279,500	263,233
7	Pakistan Petroleum Limited	10,000	10,000	9,900
8	United Bank Limited	414,500	358,000	241,175
			<b>TOTAL</b>	<b>1,073,403</b>





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

7. Considering the nature of trading executed by Aamir, the account details including account opening form, trading statement, financial ledger, copies of trading orders and details of receipts and payments of Aamir were obtained from IIS vide letter dated March 25, 2013. The information received from IIS further highlighted the following facts:
- (i) Aamir had mentioned his relationship with the Respondent as **brother**.
  - (ii) Aamir had authorized the Respondent to operate his trading account maintained with IIS.
  - (iii) Aamir had nominated the Respondent to receive securities/ cash in his trading account maintained with IIS.
  - (iv) Aamir had mentioned Respondent's email address in his contact details as his contact person.
  - (v) The confirmation statement for trading activity in the trading account of Aamir was being sent to email address of the Respondent on daily basis.

In addition to the information received from IIS, the identity details of Aamir were also obtained from National Database and Registration Authority, which revealed that Aamir is the real brother of the Respondent.

8. The information related to the trading and order placement of the Foreign Clients was sought from Elixir vide letter dated March 25, 2013. The requisite information comprised of name of official who received the orders for the Foreign Clients, name of official who executed the trades for the Foreign Clients, any other official / KATS operator who was aware/ involved in the order placement / execution of the Foreign Clients on the given dates and the mode of placing orders by the Foreign Clients along with the dates and timing of the same. The information obtained from Elixir revealed that the Respondent was KATS Operator in Elixir and was responsible for the execution of the orders placed by the Foreign Clients during the Period.
9. Based on the aforesaid trading pattern of Aamir and its significant synchronization with trading of Foreign Clients of Elixir along with the relationship of the Respondent with Aamir, *prima facie*, established that the Respondent, being an insider, by virtue of his position as KATS Operator at Elixir, had passed on/disclosed the inside information relating to trading orders received from Foreign Clients to Aamir, based on which Aamir indulged in insider trading. Consequently, SCN was issued to the Respondent to explain as to why action should not be



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

taken against him under Section 15E (3) of the Ordinance. The Respondent was required to appear in person or through an authorized representative before the undersigned at the Commission's Head Office on May 08, 2013 for hearing. Moreover, a letter dated May 02, 2013 was issued to Chief Executive Officer of Elixir with a request to appear at the Commission's Head Office on May 08, 2013 in reference to the show cause notice issued to the Respondent.

10. On the date of hearing the Respondent appeared at the Commission's Office but left without attending the hearing. However, the Chief Executive Officer ("CEO") and Chief Operating Officer of Elixir appeared before the undersigned. The submissions made by them are presented as under:

- (a) The CEO apprised that the Respondent is employed at Elixir in capacity of KATS Operator since November 02, 2009. However, he had not been attending the Office since April 29, 2013.*
- (b) The CEO stated that the facts provided by the Commission regarding the probable involvement of the Respondent in Front Running of the Foreign Clients of Elixir was surprising and shocking for them as the management was totally unaware of this act of the Respondent. Further, he also added that management of Elixir is also in process of seeking legal advice for appropriate action against the Respondent.*
- (c) They apprised about the efforts being made by the Elixir for attracting Foreign Investment in Pakistani Securities Market.*

11. Further, Elixir vide its letter dated May 24, 2013 reiterated the submissions as stated above, the relevant contents of the written response of Elixir are stated as under:

- (a) It provided following details regarding the internal controls in place at Elixir to safeguard the interest of its clients:*
  - The trading desks are segmented into Foreign Institutions, Local Institutions and Retails and there is separate team for each desk and there is a separate trading room for each segment.*





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

- *All the chat software/ social media access are strictly prohibited in the trading area. Further, all the incoming and outgoing telephonic conversations are recorded.*
- *Only the Desk Head of each segment has Master KATS while all the traders have Junior KATS.*
- *The compliance team takes post trading reviews on daily basis to check any instances of Front Running.*

*(b) It highlighted a number of events abroad and in Pakistan being organized by Elixir to promote Foreign Investment in Pakistani Capital Markets.*

*(c) Eventually, it assured full commitment and cooperation on the behalf of Elixir to the Commission for providing assistance in the particular instance of Front Running.*

12. Consequently, the Respondent was given another opportunity of hearing vide letter dated May 09, 2013, vide which he was required to appear on May 17, 2013 at the Commission's Office at 5<sup>th</sup> Floor, State Life Building # 2, Wallace Road, Karachi to put forward his defense. On behalf of the Respondent, Aamir, brother of the Respondent came to attend the hearing on May 17, 2013. However, the same could not be held due to some procedural issues.

13. Subsequently, the Respondent was given third opportunity to attend the hearing and to appear at the Commission's Karachi Office on May 23, 2013.

14. On the date of the hearing, Aamir, brother of the Respondent ("**the Representative**") appeared before the undersigned and made the following verbal submissions:

- (a) The Representative admitted that the Respondent was following the orders of the Foreign Clients of Elixir which were provided to him for execution and used this information to execute trading in his account.*
- (b) The Representative asserted that the Respondent was not aware that trading in such a manner is violation of Rules and Regulations. He submitted that he had no idea regarding illegality of nature of the offense and consequences of such type of transactions.*
- (c) The Representative apprised that his family was going through very difficult circumstances. He submitted that he belongs to a very poor family and resided in area of Karachi where law and order situation was worsened.*



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

- (d) *He submitted that due to their domestic problems and severe financial crisis the Respondent indulged in the offence of Front Running of clients of Elixir and utilized the profit realized through the transactions in question to make the remaining payment of the flats in which currently his family is residing.*
- (e) *He admitted the offence of the Respondent and assured that he would refrain from indulging in all such actions in the future.*
- (f) *The Representative prayed that a lenient view may be taken in the matter due to their domestic and financial circumstances.*

15. The Respondent provided his written response to SCN which was received on May 29, 2013, wherein the Respondent reiterated the submissions made during the course of hearing. The relevant contents of the written response to SCN are as under:

- (a) *He had been associated with Elixir for the last three years and has never indulged in any illegal activity during the course of his employment.*
- (b) *He is currently unemployed and has no funds to pay any penalty fee which might be imposed by the Commission. He further stated that he can transfer the documents of the property to the Commission in which he is currently residing, to pay the penalty/ fine which might be imposed by the Commission.*
- (c) *He admitted his offence and assured that he would refrain from indulging in all such actions in the future.*
- (d) *He prayed that a lenient view may be taken in the matter and keeping in view his and his family's financial position the Commission should waive any penalty.*

16. I have examined the facts, evidences and documents on record, in addition to written and verbal submissions of the Respondent. It is established that the Respondent was an insider by virtue of his position and employment at Elixir, where he used to receive material non-public information relating to trading orders of Foreign Clients. It is further established that the Respondent provided information relating to trading orders of Foreign Clients to Aamir. Subsequently, Aamir indulged in insider trading in his account on the basis of the inside information and earned significant profit amounting Rs. 1.073 million.

17. It is pertinent to mention that the Respondent was holding a responsible position at Elixir and was entrusted with confidential information pertaining to trading orders of Foreign Clients. The






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

Respondent was expected to maintain a high degree of professional conduct and integrity. Moreover, the Respondent had the responsibility to ensure that his actions were in the best interests of the Clients of Elixir.

18. In view of the apologetic submission of his offense, the extent of remorse experienced by the Respondent, personal circumstances of the Respondent and the hardships bore by the family of the Respondent, due consideration to the prayer of the Respondent has been made and a lenient view in the matter has been taken. Therefore, in exercise of powers under Section 15E (3) of the Ordinance, I hereby impose on the Respondent a fine of Rs. 100,000/- (Rupees One Hundred Thousand Only) for passing on/disclosing material inside information relating to trading orders of Foreign Clients to his brother Aamir who was not required to possess such inside information for any reason.
19. In the similar measure, the Commission has also taken enforcement action against Aamir for indulging in insider trading on the basis of material non-public information pertaining to trading orders of Foreign Clients. Consequently, fine has been imposed on him under Section 15E (1) of the Ordinance.
20. This matter is disposed of in the above manner and the Respondent is directed to deposit the fine as mentioned in paragraph 18 above 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.
21. 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/HOD (MSRD)

Announced on June 17, 2013  
Islamabad.