



Securities and Exchange Commission of Pakistan

Securities Market Division

Through Courier

Before the Director / HOD (MSRD) in the matter of Show Cause Notice issued to

AKD Securities Limited, through its Chief Executive Officer

Date of Hearing:

March 26, 2013

Representing AKD Securities Limited

(i) Mr. Muhammad Farid Alam

Chief Executive Officer

(ii) Mr. Naveed Anjum

Head of Compliance

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice bearing No. Misc. / MSW / SMD / 1 (05) 2004/1709 ("SCN") dated March 12, 2013 issued to AKD Securities Limited ("**Respondent**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under Section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**") read with Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**").

2. Brief facts of the case are that the Respondent is Trading Right Entitlement Certificate Holder of Karachi Stock Exchange Limited ("**KSE**") and is registered with the Commission as broker under the Brokers Rules. On perusal of the trading data of KSE from March 22, 2010 to April, 15, 2010 ("**Period**"), abnormal trading activity and heavy volumes were observed in the scrip of Chenab Limited ("**CHBL**") wherein the share price of the CHBL increased from Rs. 4.72 to Rs. 8.99 translating into 179% increase in share price. During the last six months i.e. September 01, 2009 to March 21, 2010 average daily traded volume in scrip of CHBL was 102,674 shares whereas during the Period average daily traded volume increased to 2,232,914 shares.

3. The Commission in exercise of its power conferred under Section 21 of the Ordinance read with Section 29(2) of the Securities & Exchange Commission of Pakistan Act,



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

Continuation Sheet - 1 -

1997 ("Act") appointed two Investigating Officers (IOs), vide Order dated May 03, 2010 to enquire into the dealings, business or other transactions pertaining to the shares of CHBL.

4. On examination of trading data by IOs, it was observed that the Respondent's clients Chen One Stores Limited ("CSL"), Sohail Badar ("SB") and Muhammad Irfan Maqbool ("MI") traded heavily in the scrip of CHBL during the Period. The details of trading by afore-mentioned clients during the Period through the Respondent are given in the table below:-

Table- 1

Sr. No.	Name	Bought Qty (Shares)	Bought Rate (Rs)	Sold Qty (Shares)	Sold Rate (Rs)	Net Qty (Shares)
1	Chen One Stores Limited	665,200	8.59	8,356,235	8.46	(7,691,035)
2	Sohail Badar	3,106,099	8.59	1,542,851	6.03	1,563,248
3	Muhammad Irfan Maqbool	6,417,700	8.55	1,639,482	6.13	4,778,218

5. To further probe the matter, IOs vide letter dated May 05, 2010, requested the Respondent to provide the copies of Account Opening Forms ("AOF"), Ledger Statements and Trading Statements of CSL, SB and MI for the period from March 01, 2010 to May 04, 2010. The Respondent vide letter dated May 07, 2010 provided the requisite information. After scrutiny of the documents in detail, it was revealed that information received from the Respondent was incomplete. Therefore, the Chief Executive Officer ("CEO") of the Respondent vide letter dated May 13, 2010 was asked to provide the missing / remaining information and the same was provided to the Commission vide letter dated May 17, 2010.

6. A Notice dated June 21, 2010 for examination under Section 32 of the Act was served to the CEO of the Respondent wherein he was directed to appear in person before the IOs on June 24, 2010 for recording of his statement in the matter. On the given date, the CEO appeared before the IOs and recorded his statement regarding the trading activities by above-mentioned clients of the Respondent.



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

Continuation Sheet - 2 -

7. After the scrutiny of the documents provided by Respondent and statement recorded by CEO, various anomalies were found. The examination of AOFs of SB and MI revealed that the Respondent had failed to properly maintained the Standardized Account Opening Form ("SOAF") of MI and SB. The following deficiencies were observed in SOAFs:

- a) The date of opening of account was not found on SAOFs.
- b) There were no nominations on SAOFs.
- c) The signatures appearing on SAOF of SB were different from his National Identity Card of Overseas Pakistanis ("NICOP").
- d) Attested copy of CNIC of MI was not attached with the SAOF.

8. Consequently, SCN dated March 12, 2013 was issued to the Respondent under Section 22 of the Ordinance and the Brokers Rules stating that the Respondent has prima facie contravened Clause A (1), Clause A (2), Clause A (4), and Clause B (4) (1) of the Code of Conduct set forth under the third schedule of the Brokers Rules. The Respondent through SCN was asked to explain its position through written reply within ten days of issuance of SCN and also required to appear in person or through an authorized representative before the undersigned at Commission's Head Office, Islamabad on March 26, 2013 for hearing.

9. The Respondent vide letter dated March 22, 2013 submitted its response to the SCN. The important contentions raised in the response are reproduced hereunder:-

"You would appreciate that AKD Securities Limited (AKDS) is one of the leading brokerage houses in Pakistan with impeccable integrity and professional record. AKDS currently has a client base of over 6000 clients who repose their trust in AKDS fully, are satisfied and raise no doubts regarding its working, AKDS has always striven to exercise due skill, care and diligence and strict adherence to laws in providing services to its clients."

"As regards the SCN, you will note that the Securities and Exchange Commission of Pakistan (SECP) inquired into this matter back in 2010 also and CDC sub-accounts of our clients Mr. Muhammad Irfan Maqbool (MI) and Mr. Sohail Badar (SB) were also blocked then. During investigation, all information and documents required of AKDS were supplied to SECP and our officers also attended meetings wherein AKDS' explanations on the matter was put forth in detail along with documentary evidence and it was shown that AKDS was/is totally clean on the matter. AKDS' cooperation



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

Continuation Sheet - 3 -

and explanations were appreciated by SECP then and AKDS believed that the matter had been resolved, at least to the extent of AKDS. it is now surprising for us to receive this Show Cause Notice asking us to provide details etc that were supplied to the SECP back in 2010."

"In any case, we reply to this Show Cause Notice as follows:

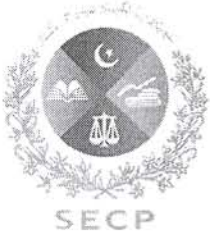
All the allegations in the SCN are denied in toto as misconceived, without substance and based on erroneous assumptions.

The SCN alleges certain discrepancies in the Standard Account Opening Form (SAOFs) of SB and MI (collectively 'the clients'). On this our submissions are as follows:

- 1) Not mentioning the date on an account opening form is of no relevance as it is settled that a trading account is deemed to have opened on the date of UIN Post Report. Therefore nothing turns on this.*
- 2) Mentioning of nominations is optional for clients; therefore nothing turns on this as well.*
- 3) The discrepancy in signatures is not entirely unusual especially when NICOP/CNIC etc are somewhat old. In case of Sohail Badar, his NICOP is dated 25 August 2004 and the trading account was opened on 01 April 2010.*
- 4) Attested copy of CNIC of Muhammad Irfan Maqbool was procured at the time discrepancy was pointed out. "*

"With regard to Para 9 of the SCN, it may be noted that amounts of Rs. 2,500,000 and 4,750,000 were received on 29 March 2010 and 31 March 2010 respectively from MI and SB and it was thereafter only that they were allowed to trade. Trading statements of the clients also show that their first trades were made after the payments were received. After payments the clients traded at their discretion and for most part exposure margins were met. However at times where exposure margins depleted, they assured their payments and were therefore facilitated some respite considering their deliveries were with AKDS and their assurances appeared reasonable. However on their failures, AKDS risk management acted diligently and started liquidating their positions in order to mitigate risk of default. We therefore respectfully submit that contents of Point 9 of SCN are uncalled for and therefore are denied in toto. "

"As regards verifying financial position of the clients, AKDS is of the



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

Continuation Sheet - 4 -

considered view that it is not a regulatory requirement and being a judgment call varies from broker to broker and therefore nothing turns on that. Even otherwise amounts that were receivable from MI and SB were equal to the value of the securities held in their sub-accounts and had the sub-accounts not been blocked by SECP the receivable amounts would have already been adjusted by liquidating their positions."

"You may appreciate that due to the said blockade clients accounts continue to be unsettled even to date. On Para 10 of the SCN regarding allegations of collusion against SB, MI and CSL, you would appreciate that this does not warrant our reply. However, it may be mentioned here that a notice sent from Chenab Limited on 26 March 2010 was, in our view, the reason that drew the interest of investors and raised the market price of CHBL, also translating into huge volumes. We do not understand how preference shareholders are supposed to have been deceived due to trading by our clients considering there was already a public notice in the market inviting every investor to invest in the shares? "

"Paras 11 and 12 of SCN allege that practices adopted by AKDS facilitated CSL, SB and MI to trade heavily in the scrip of CHBL. We deny all these allegations in toto. AKDS acted with the best professional ethics and all rules and regulations were duly observed. The clients traded at their discretion and AKDS has nothing to do with it except due facilitation that any client would expect from its broker within the parameters of law. Considering the above, we believe that the Show Cause Notice is unwarranted and should be withdrawn. We also take this opportunity to request SECP to kindly direct Central Depository Company of Pakistan Limited to unblock the CDC sub accounts of our clients. This blocking is not only damaging the interests of our clients but is also affecting the reputation of SECP itself. "

10. The hearing in the matter was held on March 26, 2013. Mr. Muhammad Farid Alam, CEO and Mr. Naveed Anjum, Head of Compliance ("HOC") appeared on behalf of the Respondent. They reiterated the arguments as presented in Respondent's above-mentioned written reply. The submissions made by them during the course of hearing and proceedings of the hearing are summarized as under:

- i) CEO apprised that the MI and SB were walk-in clients and Respondent had no prior relationship with them and no one referred those clients. CEO contended that all the requisite information



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

Continuation Sheet - 5 -

regarding the above-mentioned clients and the matter under discussion had been provided to the Commission in year 2010.

ii) During the course of hearing CEO contented that most of the shares of CHBL were bought by MI and SB at highest price prevailing at that time and they did not appreciate or manipulate the share price of CHBL. According to the CEO, MI and SB suffered huge losses due to buying of large number of shares at very high price.

iii) CEO was inquired whether MI and SB had any link with CHBL. The CEO replied that according to his knowledge there was no relationship between CHBL and the clients. He further clarified that MI and SB traded independently and they made the price discovery of CHBL on the material information issued by management of CHBL in the month of March 2010.

iv) CEO was inquired regarding the trading history and debit balances of the MI and SB. The CEO replied that they are not aware of the trading history of the clients whereas the Respondent issued three different reminders to MI and SB for clearance of debit balances in their trading accounts. Further, the amounts that were recoverable from MI and SB were equal to the value of the securities held in their CDC sub-accounts which were blocked by the Commission.

v) During the hearing the CEO was apprised regarding the discrepancies found in the AOFs of MI and SB. The CEO informed that there were minor discrepancies in the AOFs of the MI and SB and the most of the issues raised in the SCN were addressed by the Respondent in detail in its reply to SCN.

vi) The CEO was inquired whether Respondent provided any advisory services to CSL, MI and SB regarding trading in the scrip of CHBL. The CEO informed that the Respondent did not provide any advisory services to these clients and all their trades were executed



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

Continuation Sheet - 6 -

through KATS. The CEO confirmed that the Respondent did not get any benefit from CSL except the commission charged to it for its trading.

vii) At the end of the hearing, the CEO requested that Commission may kindly discharge the SCN as the Respondent acted with the best professional ethics and all the applicable rules and regulations were followed according to the spirit of law.

11. I have heard the arguments presented by the CEO and HOC during the course of hearing. Additionally, I have perused the record and the written reply filed by the CEO on behalf of the Respondent. Accordingly, my findings on the arguments and assertions made by the Respondent to the issues raised in the SCN are as follows:

i) The contention of the CEO that AOFs of the MI and SB were properly maintained and discrepancies found in the AOFs of MI and SB were not serious is not true. The date of opening of account was missing on AOFs of MI and SB and copy of CNIC of MI was also not attached with his AOF which is a basic requirement of any SAOF. It was the duty of the Respondent to complete the documentation requirements of the MI and SB in all respects i.e. name of the nominees and verification of their real signatures as both clients were new and not known to the Respondent.

ii) The contention made by CEO that Respondent is one of the leading brokerage houses with impeccable integrity and professional record is true. Being a reputed brokerage house it was the obligation of the Respondent to adopt high standards of professionalism.

iii) The contention of the Respondent that during the investigation in 2010 all the requisite information and record was provided to the Commission is true. As mentioned earlier the Commission vide Order dated May 03, 2010 appointed two IOs to



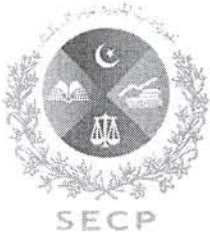
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Supervision & Registration Department)

Continuation Sheet - 7 -

enquire into the dealings, business or other transactions pertaining to the shares of CHBL. The IOs in their findings stated that the Respondent has failed to follow the requirements of Code of Conduct laid down in third schedule of the Brokers Rules.

iv) The contention of the Respondent that MI and SB were allowed to trade only after depositing the initial margins and most of the time their exposure margins were met is not true. It is pertinent to mention here, that there was no trading history of MI and SB at stock exchanges and they were walk-in clients as mentioned by the CEO of the Respondent. MI deposited Rs. 2.5 million and SB deposited Rs. 4.7 million at the time of opening of their trading accounts, whereas, subsequently they had debit balances of Rs. 32.78 million and Rs. 29.74 million respectively with the Respondent. It was the duty of the Respondent to first check the complete KYC (Know Your Customer) of its two new clients who traded heavily in the illiquid scrip of CHBL. The Respondent was required to ensure true identity of the clients through original CNIC and physical appearance. Moreover, thorough scrutiny of new clients were required that included verification by third party.

v) For the sake of arguments, if we assume that the violations made by the Respondent are not significant in nature, however, keeping in the view the gravity and sensitivity of this matter wherein the Respondent's clients were involved in the alleged scheme of price manipulation in the scrip of CHBL, these regulatory violations should have not been ignored. It is important to note that the two walk-in clients traded heavily in the illiquid scrip of CHBL with connivance of CSL, a Group Company of CHBL, and Respondent failed to detect the same. Besides, Respondent is one of the top brokerage houses of Pakistan and has been in business for quite some time now, therefore, the expectation of duty of care is heightened in its case. The compliance



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

Continuation Sheet - 8 -

function of the Respondent was required to be vigilant and the transactions of the clients should have been scrutinized in terms of the clients profile, risk category and historical trading pattern.

vi) The practices adopted by the Respondent in the instant matter i.e. incomplete documentations of AOF's of MI and SB, allowing the clients to buy shares with huge debit balances, manner of receiving clients orders for trade execution, mode of sending trade confirmations, opening of trading accounts without following appropriate customer due diligence creates doubts regarding the business conduct of the Respondent. It is pertinent to mention here that in order to protect the interest of the investors and to strengthen the capital market, the law imposes obligation on the market intermediaries to adhere to and comply with all the rules and regulations framed under the Ordinance.

12. From the above, it is established that the Respondent failed to act with due skill, care and diligence in the conduct of its business. If Respondent followed the proper KYC of its new clients and maintained proper margins from them then there might be possibility that MI, SB and CSL were not able to create false market in the shares of CHBL. It is disappointing to note that for generating the commission income Respondent allowed two new and unknown clients to trade heavily in illiquid scrip. The Respondent has failed to abide by the provisions of the Brokers Rules, thus violated the Clause A(2), A(5) and B (4) (1) of the Code of Conduct set forth under the third schedule of the Brokers Rules which in turn is a violation of Rule 12 read with Rule 8 of the Brokers Rules.

13. The violation of the Rules and Regulations is a serious matter which entitles the Commission to even suspend the Respondent's registration but I have elected not to exercise this power at present. However, in exercise of the powers under Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 500,000/- (Rupees Five Hundred Thousand Only). I 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 punitive action under the law.



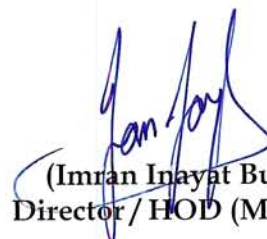
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Supervision & Registration Department)

Continuation Sheet - 9 -

14. 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 Commission.

15. 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 July 10, 2013
Islamabad.