



Securities and Exchange Commission of Pakistan
Securities Market Division
Market Supervision & Capital Issues Department

Before The Director/HOD (MSCID)

in the matter of Show Cause Notice issued to

Pearl Securities Limited, TREC Holder/Broker of Karachi Stock Exchange Limited

Date of Hearing:

February 01, 2013

Present at Hearing:

Representing the Pearl Securities Limited

(i) *Mr. Sajid Anwar*

Chief Executive Officer, Pearl Securities Limited.

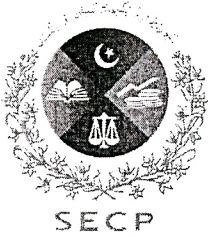
Assisting the Director/HOD (MSCID)

(i) *Mr. Kapeel Dev*

Assistant Director, SECP.

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice (**the "SCN"**) bearing No. 1 (03)/Wash/KSE/MSW/SMD/2009/97 dated 02/11/2012 issued to Pearl Securities 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"**) and the Brokers and Agents Registration Rules, 2001 (**the "Brokers Rules"**). The Respondent is a Trading Right Entitlement Certificate Holder of the Karachi Stock Exchange Limited (**"KSE"**) and registered with the Commission as Broker under the Brokers Rules.
2. The brief facts leading up to this order are that after examination of the trading data of Karachi Automated Trading System (**"KATS"**) of KSE from July 01, 2012 to September 30, 2012, it was noted that a client of Respondent namely; Highlink Capital (Pvt.) Limited (**"HCL"**), bought and sold shares through Respondent in such a way that orders for buy and sell matched with each other and did not result in any change in ownership of the shares. Thus, the transactions fall within the meaning and ambit of the term '**Wash Trades**'. A summary of the said transactions is noted in chronology, as follows:



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(i) In the month of July 2012 the HCL bought and sold 246,686 shares at KSE, as a result of these trades, the Brokerage House executed 39 Wash Trades in 14 different scrips.

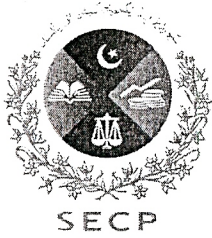
(ii) In the month of August 2012 the HCL bought and sold 580,000 shares at KSE, as a result of these trades, the Brokerage House executed 78 Wash Trades in 19 different scrips.

(iii) In the month of September 2012 the HCL bought and sold 457,800 shares at KSE, as a result of these trades, the Brokerage House executed 94 Wash Trades in 35 different scrips.

3. As mentioned earlier these transactions fall within the scope and meaning of Wash Trades, therefore, the Commission vide its letter no. 1(01)/Wash/KSE/MSW/SMD/2009/83 dated September 24, 2012 requested the HCL to provide the comments and documentary evidences to clarify its position regarding the execution of Wash Trades in its proprietary account. In this regard, the HCL through its letter dated October 04, 2012 made the submissions which are reproduced as under:

“At our brokerage house, for proprietary trading, different traders operate through different allocated trading terminals and they try to take benefit out of any price fluctuation that arises in the market. In such cases trader’s performance is subject to encashing any possibility of making profit and the transactions executed by these traders are distinguished by the trading terminals through which they operate. Sometimes, it may happens that due to paucity of time and turnover taking place on that particular time, some trades executed through different terminals of the house may match with each other by chance and it is merely a coincidence and happens without having any intention of affecting the price and creating an impression of active trading. The trades cited by you are simply the result of coincidence and it was mere a chance.

The very fact is evident from the trades in a particular scrip, cited by you, are of insignificant percentage of our own house trading in that scrip while our house account trading is inconsequential percentage of the total trades / turnover in the market itself in that particular trade. For example, on 31 Jul, 2012, AHCL compared to total turnover in the market amounts to 0.0010%.

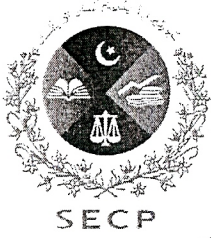


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From the above, it is evident that quantities involved are too small and insufficient to manipulate the price and the market.”

4. The aforementioned reply of the HCL was examined by this office and was not considered satisfactory as same did not contain any evidence or reasonable justification for execution of Wash Trades in its accounts maintained with Pearl Securities Limited. Accordingly, the SCN dated November 02, 2012 was issued to the Respondent under Section 22 of the Ordinance and the Brokers Rules stating that Respondent has prima facie contravened Code of Conduct specified under Rule 12 of the Broker Rules and made part thereof as third Schedule. It was alleged that being a broker Respondent was responsible for each and every trade executed through its terminal and the execution of wash trades in various scrips in its client's accounts through its terminal does not depict that the Respondent conducted its business with due care and skill. 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 November 16, 2012 for a hearing. Thereafter, on the request of Respondent the venue of the hearing in the matter was changed from Islamabad to Karachi and fixed on February 01, 2013.
5. On the hearing date, Mr. Sajid Anwar CEO of the Respondent, (“**Authorized Representative**”), appeared on behalf of the Respondent. The Authorized Representative agreed to the observations of the Commission and explained that the Respondent has given the access of the trading terminals to the Lahore Stock Exchange brokers, so they execute trades directly; hence the Respondent has no control over the execution of trades by the HCL. Moreover, he also submitted that Respondent has repeatedly intimated HCL for the execution of wash trades. During the course of hearing, the Authorized Representative was informed of the fact that there was no justification under the law for the execution of wash trades and it was the prime responsibility of the Respondent to regularly monitor the transactions of its clients. The Authorized Representative apprised that prior to the subject SCN the Respondent only used to monitor the margin requirements but now after the issuance of the SCN the Respondent has started the regular monitoring of the transactions by the clients. 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.
6. I have perused the record and heard the arguments of the Authorized Representative during the hearing. In view of the facts and my findings and observations thereon, it is established




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that the client of the Respondent has placed the buy and sell orders at the same Exchange in such a way that orders for buy and sell matched with each other and did not result in any change in beneficial ownership of the shares, which created false and misleading impression in the market and is a violation of the regulatory framework. I am of the considered view that unfair trade practices like Wash Trades are harmful for the development of the market and damage market integrity. The execution of abovementioned trades shows that the Respondent has failed to maintain high standards of integrity and has been unsuccessful in exercising due care, skill and diligence in conduct of its business. Consequently, it is established that the Respondent has contravened the provisions of the Code of Conduct.

7. The violation of the Rules and Regulations is a serious matter which can even lead to suspension or cancellation of the Respondent's registration as a broker by the Commission. However, taking a lenient view in the matter, I hereby impose a penalty of Rs. 100,000/- (Rupees Hundred Thousand only) on the Respondent. Additionally, I strongly advise the Respondent to take immediate measures and put in place proper checks in its Order Management System to restrict such orders, which may result in wash trades. 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.
8. 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.
9. 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 (MSCID)

Announced on February 19, 2013
Islamabad.