



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

Before The Director (Securities Market Division)

In the matter of Show Cause Notice issued to

Mr. Salman Ali Hussain

Date of Hearing:

October 13, 2009

Present at the Hearing:

Mr. Salman Ali Hussain

Fund Manager, Equity Portfolio, Alfalah  
GHP Investment Management Limited

Assisting the Director (SMD)

(i) Ms. Nadia Rasheed

Deputy Director

(ii) Ms. Tayyaba Nisar

Assistant Director

**ORDER**

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(4)/INV/MSW/SMD/2009/05 dated September 25, 2009 ("SCN") issued by the Securities and Exchange Commission of Pakistan ("Commission") under Section 15(E) of the Securities and Exchange Ordinance, 1969 ("Ordinance") to Mr. Salman Ali Hussain ("Respondent"), Fund Manager Equity Portfolio, Alfalah GHP Investment Management Limited ("AGIM").
2. The brief facts of the case are that an onsite inspection of AGIM and Collective Investment Schemes under its management ("funds") was ordered by the Commission vide order no. SCD/NBFCD/M&I/2009/543 dated May 04, 2009 under powers conferred upon in Section 282(I) of the Companies Ordinance, 1984. During the aforementioned inspection, the trade details for the employees of the funds were reviewed, including the



**SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**  
**(Securities Market Division)**

details of trading activity undertaken by the Respondent for the period covering December 2008 to May 2009.

3. On perusal of the trading data of the Karachi Stock Exchange (Guarantee) Limited (“KSE”) for the period under review, it transpired that the Respondent’s personal trading activity through M/s Growth Securities (Private) Limited, Member KSE, concentrated in the same shares in which the funds had traded namely Tariq Glass Limited, National Bank of Pakistan, MyBank Limited, Descon Oxychem Limited, EcoPak Limited, Engro Chemicals (Pakistan) Limited, Pakistan State Oil Company Limited, Faysal Bank Limited, ICI Pakistan Limited, Huffaiz Seamless Pipe Limited, Kohinoor Energy Limited, Oil and Gas Development Company Limited, and Mari Gas Company Limited. It was observed that the trading by the Respondent was executed in a manner whereby the Respondent bought the shares of the aforementioned companies at a lower rate prior to initiation of buying activity of the funds and sold his holdings in the aforementioned shares once the price appreciated resulting from the purchases made by the funds. It was also noted that at some occasions, Respondent’s trades perfectly matched with the trades by the funds and that the funds solely bought the shares sold by the Respondent. The details of the scrips and the profit realized in each scrip are given below:

**TABLE – 1:**

<b>Sr. No.</b>	<b>Scrip Name</b>	<b>No. of Shares</b>	<b>Profit Realized (Rs.)</b>
1.	Tariq Glass Limited	17,000	12,171
2.	National Bank of Pakistan	10,000	4,900
3.	Mybank Limited	150,000	43,745
4.	Descon Oxychem Limited	25,000	23,750
5.	Ecopack Limited	32,000	20,025
6.	Engro Chemicals (Pakistan) Ltd	25,000	21,543
7.	Pakistan State Oil Company Ltd	10,000	8,535
8.	Faysal Bank Limited	30,000	9,900
9.	ICI Pakistan Limited	9,900	9,231
10.	Huffaz Seamless Pipe Industries Ltd	6,000	7,755
11.	Kohinoor Energy Limited	9,000	38,070
12.	Oil & Gas Development Company	30,000	12,245
13.	Mari Gas Company Limited	3,000	89,885
			<b>301,755</b>



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

4. The Respondent is employed with AGIM in capacity of Manager of the funds. Moreover, as Manager Equity Trading Department and as Member of the Investment Committee of AGIM, the Respondent is involved in decision making with respect to day to day investments of the funds namely Alfalah GHP Value Fund, Alfalah GHP Islamic Fund and Alfalah GHP Alpha Fund. Further, the Respondent is also responsible for managing equity portfolio of the Alfalah GHP Principal Protected Fund. In official capacity as the Fund Manager and Member of the Investment Committee of the Funds, the Respondent was privy to the investment decisions made and of their nature and thus in affect had access to inside information.
5. In light of the aforementioned, the SCN dated September 25, 2009 under Section 15(E) of the Ordinance was issued to the Respondent. The Respondent was asked to submit a written reply within seven (7) days of the date of SCN and hearing was fixed on October 13, 2009 at Islamabad. The hearing was attended by the Respondent himself.
6. The Respondent in his reply dated October 3, 2009 stated that he made the decision to make a personal investment in stock market considering the potential of good returns. The Respondent further added that he brought his personal investment decision in the company's notice and retained and maintained the trading account in his own name. The Respondent termed the disclosure as an effort on his part for transparency in his dealing. The Respondent further added that during the period under review the funds made heavy investments in scrips including those in which the Respondent had traded and it is a mere co-incident that his trades matched with that of the funds. The Respondent prayed that no loss has been booked by the funds resulting from his personal trades and being in a responsible position the Respondent has only conformed to his duties in earning high profits for the funds without undermining the interest of the investor. The relevant sections of the aforementioned reply are reproduced as under:

*"Also please note that none of the trades as per your letter has any price impact on the stocks concerned. Thus, the Fund was not disadvantaged in any manner whatsoever in*



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

*getting the best possible price under normal/regular market conditions. Hence, there was no impact on the Fund.*

*Also, as per the trades in your letter please note that approximately 50% of the alleged profit made is from delivery based transactions in which I invested my own capital and hence took investment risk and then made profit which is perfectly correct. Thus it was a pure investment decision by me. Only a few trades coincidentally matched with the fund trades. The investments done by me were very small and the profits derived subsequently were very small and marginal.”*

7. During the course of hearing, the Respondent stated that he opened the trading account in his own name and subsequently disclosed his trading details to the AGIM as per the company policy in place. The Respondent added that half of his trades were delivery based and his own capital was invested. However, the Respondent admitted that his investment mainly concentrated in those scrips in which the funds had traded but it was a pure investment decision by him and his trades matching with that of the funds can be termed as a ‘procedural mistake’ and coincidence. The Respondent informed that the investment policy for the funds of which he is the manager is finalized well in advance, which includes allocating budgets for long term and short term trading for identified scrips. The Respondent further stated that attractive price level offered good potential for healthy profits and returns and was the motive of his personal investment decisions. The Respondent prayed that keeping in view the aforementioned contentions, the Commission may take a lenient view of the matter as the manner in which his personal trades were undertaken by him were not with any fraudulent intentions and did not contravene the provisions of Section 15(A) of the Ordinance.
8. During the course of hearing, the Respondent was requested to provide the Commission with a copy of the policy laid down by AGIM for disclosure of trading by the Employees. On non-submission of the said document by the Respondent, a reminder vide letter dated October 19, 2009 was issued. However, the copy of the said document was not furnished to the Commission by the Respondent. Subsequently, Chief Executive Officer of AGIM



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

vide letter dated November 5, 2009 was requested to provide the copy of the AGIM policy regarding disclosure of the employee's trading and interest. However, the aforementioned letter was not responded by the Chief Executive Officer of AGIM.

9. Consequently, the confirmation was sought from the Commission's team, which conducted the onsite inspection of AGIM, whether there is any policy laid down by AGIM for the employees to trade personally in shares. Further, the inspection team was also requested to provide their observations/ comments on the same, if any. The inspection team provided the copy of the Personal Share Dealing Policy from the Employee Hand Book of the AGIM. Moreover, the section of the Inspection Report relating to the "Personal Share Dealing Policy" was also provided, the relevant contents of the section are reproduced as under:

*"To ensure compliance of the above referred policy (Personal Share Dealing Policy) of Employee Hand Book-Ethics & Code of Conduct, the inspection team asked for the different information evidencing the compliance of the said policy. However, the inspection team was provided only with the copies of stock declarations submitted by senior executives and employee of portfolio and trading department only, which shows that they are only complying with the requirement of maintaining stock declaration. On further enquiry they confirmed that presently they are not ensuring the proper compliance of the said policy. They further added that they intend to make amendments in the current Personal Share Dealing Policy. The management in their comments in response to the draft report reiterated that this policy will soon be updated and fresh approval would be taken from BOD for implementation.*

*During the review of all the stock declarations as provided by the management of AGIM, only Mr. Salman Al (SA), Fund Manager and VP Trading at Alfalah GHP Investment Management Limited declared holding of various shares and Mr. Anees A. Aziz (CEO of AGIM) declared units of various funds of AGIM as on December 31, 2008."*



**SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**  
**(Securities Market Division)**

10. I have also reviewed the AGIM Personal Share Dealing Policy which provides guidelines to the employees to trade personally in shares and debt instruments. As per point 8.1.1 of the above referred policy, an employee is allowed to trade personally in shares and debt instruments subject to certain conditions. Some of the important conditions mentioned in the policy are described below:

- i. *All and any trades or transaction in listed securities or money market instruments that an employee wishes to enter into or contract or execute, whether directly or indirectly or in his name or in that of a next of kin or lineal ascendants or descendents or any other family member or dependent, shall be informed to the management at least one exchange trading day in advance and such permission shall be valid for a period of 24 hours from the time of approval from authorized signatory.*
- ii. *Employees must hold their securities dealing account exclusively at Alfalah Securities, further "incase of custody of investments the same shall be maintained with Alfalah Securities".*
- iii. *All employees shall submit on half yearly basis security holding declarations for himself and his immediate family or related persons.*

11. From the aforementioned observations/comments of the inspection team and review of the Personal Share Dealing Policy, it is very apparent that no prior approval to transact in the abovementioned securities was obtained by the Respondent as required by the Employee Hand Book-Ethics & Code of Conduct and he only declared his holding of various shares.

12. After the detailed and thorough analysis of trading pattern of the Respondent, it is established that trading by the Respondent during the period under review mostly concentrated in scrips in which the funds had traded. For all aforementioned thirteen (13) scrips, the Respondent had bought the shares ahead of the funds and when the price appreciated in wake of trading by the funds, profits were realized by the Respondent by selling off his holding. For twelve (12) scrips out of the aforementioned thirteen (13)



**SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**  
**(Securities Market Division)**

scrips, the sale transactions by the Respondents were perfectly set off with the buy transactions of the funds where the funds were the only buyer for the shares sold by the Respondent. It is pertinent to mention that most of the aforementioned scrips can be termed as illiquid scrips that do not attract high trading volumes in normal market condition and for which the Respondent's and as well as the fund's trading was concentrated.

13. In addition to the aforementioned thirteen scrips, I have also analyzed the Respondent's trading in other twenty scrips during the review period. It was found that in the twelve scrips, Respondent's trades were executed on the same dates as of the trades executed by the funds of AGIM. Moreover, it was also noted that in the following five scrips, the Respondent traded in the manner where he made purchases prior to the purchase by the funds. The details of the scrips and the profit realized in each scrip are given below:

**TABLE - 2**

<b>Sr. No.</b>	<b>Scrip Name</b>	<b>No. of Shares</b>	<b>Profit Realized (Rs.)</b>
1.	Arif Habib Securities Limited	5,000	1,680
2.	Adamjee Insurance Company Ltd	7,500	6,861
3.	Bank Islami Pakistan Limited	45,000	18,800
4.	Meezan Bank Limited	25,000	6,310
5.	Pakistan Petroleum Limited	29,000	22,186
			<b>55,837</b>

14. In view of the above, the Respondent was requested, vide letter dated December 3, 2009 to provide his comments and explain his position in the matter. The Respondent replied vide letter dated December 4, 2009 wherein he stated that the observed personal trading which was executed on the same day as that of funds was not an intention to hurt the interest the interest of company or unitholders. Moreover, he reiterated the same arguments that he has already submitted vide his earlier written reply and presented during the course of the hearing.



**SECURITIES & EXCHANGE COMMISSION OF PAKISTAN**  
**(Securities Market Division)**

15. After a detailed and thorough perusal of facts, information and documents submitted by the Respondent and the contentions and averments made by the Respondent during the course of hearing, it is clearly established that the Respondent being the Fund Manager and the Member of the Investment Committee for the funds was privy to the inside information regarding investment by the funds and his trading hence mostly concentrated in those scrips in which the funds had traded. The Respondent realized profits based on inside information and hence indulged in Insider Trading contravening the provisions of Section 15 (A) of the Ordinance.
16. Therefore, keeping in view the aforementioned, I am of the considered opinion that the Respondent has failed to comply with the provisions of Section 15 (A) of the Ordinance and has indulged in Insider Trading based on the information available to him by virtue of his official capacity. The contention made by the Respondent that the investments made by him was purely based on his own judgment and that the matching of his sale transactions with that of buy transactions of the funds is mere coincidence is not true. The Respondent had fiduciary responsibilities towards the funds and the unitholders by virtue of his privileged position, being privy to the inside information. Hence, the law forbids such persons from gaining undue advantage in their favour by making inordinate transactions of short-term gains.
17. In light of the above, in exercise of the powers under Section 15(E) of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 357,592 (Rupees Three Hundred Fifty Seven Thousand Five Hundred and Ninety Two only), being an amount equivalent to the gain made based on inside information. Moreover, I also direct the Respondent to surrender Rs. 357,592 (Rupees Three Hundred Fifty Seven Thousand Five Hundred and Ninety Two only), being the amount of the profits realized by the Respondent. I further 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 & EXCHANGE COMMISSION OF PAKISTAN**  
**(Securities Market Division)**

18. The matter is disposed of in the above manner and the Respondent is directed to deposit the aggregate sum of Rs. 715,184 (Rupees Seven Hundred Fifteen Thousand One Hundred and Eighty Four only) 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.
19. 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  
Securities Market Division

**Announced on December 9, 2009**  
**Islamabad.**