



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

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Before The Director (Securities Market Division)  
In the matter of Show Cause Notice issued to  
Darson Securities (Pvt.) Limited

Date of Hearing:

January 13, 2010

Present at the Hearing:

Representing the Darson Securities (Pvt.) Limited

(i) Mr. Dilawayz Ahmed

Finance Manager

Assisting the Director (SMD)

(i) Mr. Waqar Ahmad Siddiqui

Joint Director

(ii) Mr. Adnan Ahmed

Deputy Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(07) BS/KSE/MSW/SMD/2009/63 dated December 07, 2009, ("the SCN") issued to Darson Securities (Pvt.) Limited ("the Respondent"), Member of the Karachi Stock Exchange (Guarantee) Limited ("KSE"), by the Securities and Exchange Commission of Pakistan ("the Commission") under Section 22 of the Securities and Exchange Ordinance, 1969 ("the Ordinance") and Rule 8 of the Brokers and Agents Registration Rules, 2001 ("the Brokers Rules").
2. The brief facts of the case are that the Respondent is a member of KSE and is registered with the Commission under the Brokers Rules. On perusal of trading data of Karachi Automated Trading System ("KATS") of KSE for the month of September 2009, it was noted that the clients of the Respondent namely Syed Aftab Ahmed Shah ("SA") bearing client code "3159" and Sumaira ("SUM") bearing client code "5149" had been engaged in first selling and then squaring up their positions in different scrips.



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3. It was observed that on September 24, 2009 SA first sold 25,000 shares of Oil & Gas Development Company Limited ("OGDC") between 09:51:32 a.m. to 09:51:59 a.m. and subsequently squared his position by purchasing these share between 13:12:10 p.m. to 13:12:21 p.m. It was further observed that on September 28, 2009 the same client sold 25,000 shares of Lucky Cement Limited ("LUCK") between 12:17:07 p.m. to 14:32:36 p.m. and subsequently squared his position by purchasing these shares between 15:08:36 p.m. to 15:08:44 p.m. It was also noted that on September 15, 2009 the Respondent's another client SUM first sold 50,000 shares of OGDC between 13:40:41 p.m. to 13:42:48 p.m. and subsequently squared her position to the tune of 25,000 shares between 13:44:47 p.m. to 13:52:35 p.m. Further, SUM on September 28, 2009 sold 100,000 shares of Bank of Punjab ("BOP") between 11:36:53 a.m. to 11:39:23 a.m. and subsequently squared her position to the tune of 50,000 shares between 15:13:05 p.m. to 15:23:50 p.m. The available records did not show that the said clients had pre-existing interest in the shares before above-mentioned sales.
4. The Commission vide its letter dated November 16, 2009 sought clarification from the Respondent regarding the above-mentioned sales executed during the month of September 2009 on behalf of its clients. The Respondent in its reply vide letter dated November 19, 2009 informed the Commission that SA assured the KATS Operator to provide the delivery of LUCK on settlement date but on the same day squared up his position. Moreover, in case of OGDC, KATS Operator mistakenly entered the wrong client code. The Respondent further stated that in the case of SUM, KATS Operator mistakenly entered the wrong client codes, accordingly both transactions were executed in SUM's trading account instead of other clients' accounts.
5. The above-mentioned reply of the Respondent was not considered satisfactory and it clearly showed that Respondent had executed the said trades without having pre-existing interest. Consequently, the SCN 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 (2) and A (5) of the Code of Conduct set forth under the Third Schedule of the Brokers Rules. The Respondent was asked to submit a written reply along with the documentary proof within seven days of the SCN and the hearing date was fixed at Commission's Islamabad Office on December 30, 2009. However, the date and venue of hearing was changed on the



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Respondent's request and the hearing was held at Commission's Karachi Office on January 13, 2010.

6. The Respondent submitted its written reply to the SCN vide its letter dated December 16, 2009. Some of the contentions raised by the Respondent in its reply are as follows:

- i) *"...sale of LUCK by SA (3159) in early hours of trading session executed by the KATS operator on assurance of client to provide delivery on settlement date. But the client squared up the position in same session; hence we were not in need of delivery from the said client due to this trade."*
- ii) *"Secondly, regarding transactions of OGDC of September 24, 2009 the client had earlier purchase of OGDC on the same exchange on September 07, 2009. But when entering purchase order of OGDC on September 07, 2009 the KATS operator inadvertently entered 3101 KATS code instead of entering 3159 KATS code."*
- iii) *"The trades of OGDC and BOP inadvertently entered in 5149 were actual trades of KATS code 2608 and UIN 41048 respectively."*

7. On the hearing date the authorized representative of the Respondent Mr. Dilawayz Ahmed, Finance Manager ("the Representative") appeared before me and made the following submissions:

- i) The Representative reiterated the stance, as already submitted to the Commission vide letter dated December 16, 2009 and informed that after receiving the SCN the Respondent asked SA to provide CDC statement to substantiate its pre-existing interest in the scrip of LUCK but SA did not respond.
- ii) The Representative further stated that while entering a sale order in the scrip of OGDC, KATS Operator erroneously entered the client code of SA i.e. "3159" instead of Aftab Merchant's client code "3101".



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- iii) Similarly, sale of OGDC and BOP on account of its client SUM also resulted due to mistake by KATS Operator. In fact, transactions of OGDC were related to Respondent's client namely Asghar Ali ("AA") having client code "26008", whereas, transactions of BOP were related to Proprietary Account of the Respondent.
- iv) The Representative during the course of hearing admitted the fault of not reporting above-mentioned mistakes to the KSE and prayed that the Commission may take a lenient view in this matter because the said mistakes were result of ignorance.
8. Considering the contentions made in written reply of the Respondent and arguments made by Representative during the course of hearing, it is established that the Respondent's client SA has sold 25,000 shares of LUCK on September 28, 2009 without having pre-existing interest. Account Activity Report of the SA obtained from Central Depository Company ("CDC") showed that SA had no buying position in the scrip of LUCK before the sale. Therefore, selling by SA in the scrip of LUCK was without pre-existing interest in the shares, thus constitutes blank selling, under the Regulation of Short Selling under Ready Market 2002 ("the Regulations").
9. During the course of hearing, the Representative was asked to provide their records to corroborate genuineness of aforesaid mistakes of KATS Operators. The requisite information was provided by the Respondent through its letter dated January 15, 2010. The information provided by the Respondent was limited to back office records and CDC statements of its House Account. However, CDC Sub Account statements of SA, SUM and AA were not provided, thereby, posing a limitation on Commission's ability to assess legitimacy of aforesaid mistakes of KATS Operators. However, perusal of provided records substantiated that adjustments relating to aforesaid mistakes have been made in the back office records.
10. Having considered the facts and thoroughly examined the evidence/information available on record and evaluated the assertions made by the Representative, it is established that KATS Operator of the Respondent placed the sale orders in the Client's accounts without having pre-existing interest and the Respondent did not intimate to KSE regarding mistakes made by KATS Operator resulting in non-compliance of KSE Notice Number KSE/N-4848. It was the responsibility of the Respondent to monitor all trading activities being carried out



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through its brokerage house in order to track and prevent any transaction being made in violation of any applicable rules and regulations. The Respondent should have immediately informed the KSE about the error made by the KATS Operators.


11. Further, placement of the sale orders without having pre-existing interest interfered with the fair and smooth functioning of the market and created misleading impression for the other investors. Thus the Respondent by executing sales in the client's account without pre-existing interest has violated the Regulations which in turn is violation of Code of Conduct set fourth under the third schedule of the Brokers Rules that makes it mandatory on the Respondent to execute its business with due care and skill. The repeated mistakes committed by the KATS Operators of the Respondent and non-reporting the same to KSE indicate that proper systems and controls were not in place at the Respondent's brokerage house. The placing of sale orders with out pre-existing interest and errors committed by the KATS Operators of the Respondent clearly show that the Respondent has failed to conduct its business with due diligence, care and has interfered in smooth and fair functioning of the market. Therefore, keeping in view the aforementioned, it is evident to me that the Respondent has violated Clause A2 and A5 of the Code of Conduct of the Brokers Rules which in turn is a violation of Brokers Rules.
12. The violation of the Rules and Regulations is a serious matter which entitles the Commission to even suspend the Respondent's membership but I have elected not to exercise this power at present. However, in exercise of the powers under Rule 8 (b) of the Brokers Rules, I hereby impose on the Respondent a penalty of Rs. 75,000 (Rupees Seventy Five thousand only). I strongly advice the Respondent to take immediate measures and put in place proper checks and procedures to eliminate the occurrence of such instances in future. 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 punitive action under the law.
13. 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.



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14. The order is being issued without prejudice to any or all actions that may be required to be taken under the law against the Respondent, its individuals director(s)/officer(s) or any other person involved in violation of any other rules and regulations which may have been committed.



Imran Inayat Butt  
Director (SM)

Announced on March 11, 2010  
Islamabad.