



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Through Courier

Before The Director/HOD (MSCID)
In the matter of Show Cause Notice issued to
Mr. Muhammad Ahmed

Date of Hearing:

November 15, 2011

Present at the Hearing:

Mr. Muhammad Ahmed

Ex - Fund Manager of First Dawood Mutual
Fund, Dawood Islamic Fund & Dawood
Income Fund

Assisting the Director/HOD (MSCID)

Ms. Tayyaba Nisar

Assistant Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(3)/INS/MSW/SMD/2011/DCML-2 dated October 05, 2011 ("SCN") issued by the Securities and Exchange Commission of Pakistan ("Commission") under Section 15(A) of the Securities and Exchange Ordinance, 1969 ("Ordinance") to Mr. Muhammad Ahmed ("Respondent"), ex Fund Manager of First Dawood Mutual Fund ("FDMF"), Dawood Islamic Fund ("DIF") and Dawood Income Fund ("DIMF") [formerly Dawood Money Market Fund ("DMMF")].
2. The brief facts of the case are that an onsite inspection of Dawood Capital Management Limited ("DCML") and Collective Investment Schemes under its management ("Funds") was ordered by the Commission vide Order No. SCD/SD/DCML/2010/272 dated December 03, 2010 under powers conferred upon in Section 282(I) of the Companies



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Ordinance, 1984. During the aforementioned inspection, the trade details for the employees of the Funds were reviewed, including the details of trading activity undertaken by the Respondent's wife Ms. Yasmeen Ahmed ("YS") for the period covering July 2007 to August 2010 ("**period under review**").

3. On perusal of the trading data of the Karachi Stock Exchange (Guarantee) Limited ("**KSE**") for the period under review, it was observed that YS was an active market participant and carried out her trading through five brokerage houses of KSE namely Summit Capital Limited ("**SCL**") [formerly Atlas Capital Markets Limited], Habib Metropolitan Financial Services Limited ("**HMFS**"), Jan Mohd. A. Latif. Nini & Sons (Pvt) Limited ("**JMLNS**"), Creative Capital Securities Limited ("**CCS**") and Shahzad Chamdia Securities Limited ("**SCSL**"). The trading activity of the all the accounts of YS was reviewed in relation with the trading of the Funds.
4. The details of the trading accounts of YS were obtained from the aforementioned five brokerage houses which revealed the following information:
 - i. YS had authorized the Respondent to operate the trading accounts maintained with SCL and HMFS.
 - ii. YS had authorized her father Mr. Abdul Rahim to operate the trading accounts maintained with JMLNS, CCS and SCSL.
 - iii. The telephone log used for trading account of YS maintained with HMFS was obtained from the broker which showed that few orders were placed through mobile number of the Respondent and the official telephone line of DCML in this account.
5. From the review of the Annual Reports of FDMF, DIF and DIMF, it was revealed that the Respondent was employed in the capacity of the Fund Manager of FDMF during the period under review and Fund Manager of DIF and DIMF since February 2010. Moreover, the Respondent was the member of the Investment Committee of DCML since July 01, 2008 and thus was involved in the decision making for day to day investments of the Funds.



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6. In light of the aforementioned, the SCN dated October 5, 2011 under Section 15(A) 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 20, 2011 at Islamabad.
7. In response to the SCN, the Legal Counsel of the Respondent, Mirza & Minto vide its letter dated October 12, 2011 requested for the extension in time for submission of the response to the show cause notice as well as hearing date, which was accepted in the interest of the justice.
8. The Legal Counsel vide letter dated November 3, 2011 submitted its response to the SCN in which it stated that Section 15 of Ordinance was amended through Finance Act, 2008 and came into force on July 01, 2008 which implies that the trading activity of YS before that period could not be covered under scope of Section 15 of the Ordinance. The important contentions raised in the response are reproduced hereunder:
 - i. *The Respondent was appointed as Fund Manager of Dawood Money Market Fund and Dawood Islamic Fund on February 2010 and in Dawood Capital Management Limited on October 01, 2009. Prior to that, the Respondent had no role to play in the said Funds.*
 - ii. *Board of Directors of Dawood Capital Management Limited approved the Respondent as Investment Committee Member in its board resolution dated July 01, 2008. Prior to that, the Respondent was not a member of the Investment Committee.*
 - iii. *It is categorically stated and affirmed that all the accounts maintained by Yasmeen Ahmed are her personal accounts and the Respondent has nothing to do with these accounts except that he is her husband. She solely operated these accounts and all her trading decisions were based on her own financial understanding and acumen. It is obvious that at time Yasmeen Ahmed suffered losses when the Funds were accumulating profits.*
 - iv. *Yasmeen Ahmed used to operate her referred accounts either by herself or through her father named Mr. Abdul Rahim. Yasmeen Ahmed conducted her transactions by herself or through her father.*



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- v. *The allegations of the Notice are also belied by the trading history of the Mr. Abdul Rahim who in spite of having worked with KSE for last 15 years, suffered losses during the time he was conducting trades in the accounts of Yasmeen Ahmed. Such as with Jan Mohd. A. Latif. Nini & Sons (Pvt) Limited, he suffered losses of Rs.905,863, which are still outstanding. In this connection with Creative Capital Securities Limited, he suffered huge losses of Rs. 125,204, which is still outstanding despite his having sold all the holdings. Similarly, with Shahzad Chamdia Securities Limited he suffered a loss of Rs. 1 Million approximately and had to sell holdings and close the account. If Mr. Abdul Rahim had any access to the insider information of any sort, he would never have suffered losses.*
- vi. *There have been few payments made from the accounts of the Respondent but these were made since the Respondent was indebted to Yasmeen Ahmed and to pay her the said amounts he deposited these cheques in her trading accounts on her instructions. Allegations regarding use of mobile phone and Official telephone line of the Funds are also misconceived and denied.*
- vii. *In the schedules facilitated by SECP, only six trading entries of Yasmeen Ahmed were matched with the entries of the Funds. Other entries were corresponding with the CFS transactions of the Funds, which were not equity trades but were financing transactions in badla only. Similarly, at some instances the transactions are made to appear as matched with Dawood Money Market Fund and Dawood Income Fund. These at their face, are belied by the facts that Dawood Capital Management Fund didn't have Dawood Income Fund in 2007. It although had Dawood Money Market Fund but it was not allowed to trade in equity market under its trust deed."*
9. Subsequently, the hearing in the matter was held on November 15, 2011 which was personally attended by the Respondent. The Respondent at the time of hearing reiterated the contentions made in the written response by the Legal Counsel. Further, he made the following submissions verbally:
- i. *The Respondent argued that Yasmeen Ahmed traded in her accounts with the assistance of her father and there was no interference and guidance by the*



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- Respondent. The correlation between the trading of Yasmeen Ahmed and the Funds was very insignificant and was merely a coincidence due to massive trading activity in the accounts of Yasmeen Ahmed and the Funds. The Respondent further stated that no loss has been booked by the Funds resulting from trades of Yasmeen Ahmed and the Funds have booked considerable profits during the tenure when the Respondent was serving as Fund Manager. 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 unit holders of the Funds.*
- ii. *The Respondent alleged that trading activity of Yasmeen Ahmed taken into consideration by the Commission was result of pick and choose approach, which considered only few segments of the trading by Yasmeen Ahmed while totally ignoring her complete trading activity. The Respondent further argued that trading activity by Yasmeen Ahmed in her accounts doesn't fall under the ambit of insider trading as she possessed no material information pertaining to those listed securities in which she traded during the period under review.*
- iii. *The Respondent submitted that he joined the group as a typist in 1990 and was gradually promoted in the organization due to his hard work, honesty and competence. However, after the proceedings of the investigation conducted by the Commission he was forced to resign in December 2010, which deteriorated his financial plight considerably and engulfed him in severe problems.*
- iv. *The Respondent prayed that keeping in view the aforementioned contentions, the Commission may take a lenient view of the matter as the trades conducted in the accounts of Yasmeen Ahmed had no interference and involvement by him and were not undertaken with any fraudulent intentions and did not contravene the provisions of Section 15(A) of the Ordinance.*
10. I have heard the arguments of the Respondent at length during the hearing. Additionally, I have perused the record and the written reply filed by the Legal Counsel of the Respondent. Accordingly, my findings on the arguments made by the Respondent on the issues raised in the SCN are as follows:



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- i. The contention of the Respondent that the trading activity prior to July 2008 doesn't fall under ambit of Section 15 of the Ordinance is accepted and thus only the trading activity in the accounts of YS for the period from July 2008 till August 2010 ("**2nd period under review**") is taken into consideration.
- ii. Further, the contentions of the Respondent that he was not Fund Manager of DIMF or DIF prior to February 2010 were verified from the Annual Reports of the Funds for the period under review which revealed that the Respondent held the following positions during the period under review:
 - Fund Manager of First Dawood Mutual Fund: 2008, 2009, 2010
 - Fund Manager of Dawood Islamic Fund: February 2010
 - Fund Manager of Dawood Money Market Fund: February 2010However, it is pertinent to mention that the Respondent was Member of the Investment Committee of FDMF and DIF during the period under review and thus was privy to the investment decisions of the Funds to that extent.
- iii. As already stated in para # 4 above, the Respondent held authorization for the trading account of YS maintained with SCL and HMFS. However, he didn't have any authority/access to the trading accounts of YS maintained with JMLNS, CCS and SCSL. Therefore, the contention of the Respondent that he had no role to play in these said accounts and trading in these brokerage houses was executed by YS solely with assistance of her father is reckoned and the trading activity of YS only through SCL and HMFS during the 2nd period under review is taken into consideration. The analysis of the trading activity of YS in her accounts maintained with SCL and HMFS reveals that the trading activity through these two brokerage houses represents a fewer segment of the complete trading activity of YS. She traded actively through the trading accounts maintained with rest of three brokerage houses.
- iv. During the course of hearing, the Respondent provided a letter from JMLNS issued to YS for settlement of loss amounting Rs. 905,863 in her account which entails that YS had suffered significant losses during the course of her trading and was unable to pay the said dues.



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- v. The Respondent contended that YS operated her trading accounts by herself with the assistance of her father. The same information was confirmed by SCSL which stated that Mr. Abdul Rahim was always present in person at the time of trading in the said account.
11. From the aforementioned observations and review of the trading activity conducted in the accounts of YS, it has been noted that trading concentration of YS through SCL and HMFS represented insignificant segment of her complete trading. Further, the trading pattern of YS through SCL and HMFS indicates that correlation between the trading of Funds and the trading of YS is to the extent that she occasionally traded in particular scrips on the days when the Funds were trading in those scrips.
12. 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 can be inferred that trading in the accounts of YS maintained with SCL and HMFS was occasionally in correlation with the trading of Funds during the 2nd period under review. Further, the proportion for trading which was scrutinized for correlation with the Funds, represents a nominal segment of the total trading executed in the said accounts. Considering the fact that YS was an active trader and executed massive trading through her all accounts, only small segment of matched or correlated trades are insufficient to conclude that YS or the Respondent are guilty of misusing the information available to the Respondent by virtue of his official capacity. Further, the significant amount of losses suffered by YS during the course of her trading when the Respondent was Fund Manager and Member of the Investment Committee of DCML also strengthens the arguments of the Respondent regarding his non-involvement in the business affairs of her wife and her father. The aforementioned findings imply that no stances of front running or insider trading could be established against the Respondent, whereby the Respondent or YS specifically traded in a manner that they took advantage of the trading by the Funds.
13. Therefore, keeping in view the aforementioned, I am of the view that the Respondent may not play a part in executing the trading decisions of accounts of YS. However, this fact



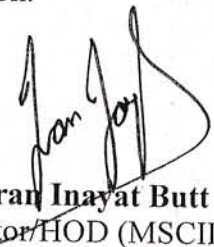
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can not be ignored that the Respondent had fiduciary responsibilities towards the Funds and the unit holders by virtue of his privileged position. The Respondent held a responsible position for managing the affairs of the Funds which required thorough integrity and honesty while performing his official obligations. The critical and important position held by the Respondent and his linkages with the trading accounts of YS maintained with SCL and HMFS raise conflict of interest between his official responsibilities and personal actions. The casual approach adopted by the Respondent to manage his official and personal affairs is not commendable where he should have realized the magnitude of responsibility endowed upon him by virtue of his position.

14. In light of the above, I am of the view that the Respondent has not exercised diligence and care while performing his official responsibilities. Therefore, the Respondent is strictly warned to abstain from any unprofessional conduct in future failing which appropriate action will be taken against him. Further, 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.
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 (MSCID)

**Announced on January 04, 2012
Islamabad.**