



**Before The Director (Securities Market Division)**

**In the matter of Show Cause Notice issued to**

**Intermarket Securities Limited**

*Date of Hearing:*

*April 12, 2011*

*Present at the Hearing:*

*Representing the Intermarket Securities Limited*

*(i) Mr. Yasin Chaudhary*

*CFO & Company Secretary*

*Assisting the Director (SMD)*

*(i) Ms. Shazia Baig*

*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 dated March 28, 2011 ("SCN") issued to Intermarket Securities Limited ("**Respondent**"), Corporate Member of the Karachi Stock Exchange (Guarantee) Limited ("**KSE**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**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 the trading data of Karachi Automated Trading System ("**KATS**") of the KSE for January 10, 2011 it was observed that the Respondent in its proprietary account first sold 100,000 shares of Karachi Electric Supply Corporation Limited ("**KESC**") and subsequently squared its position by purchasing the shares. It was further noted from the available record that at the time of sale of these shares, the Respondent did not have pre-existing interest in the shares of KESC.
3. The Commission vide its letter dated February 23, 2011 sought clarification regarding the Blank Sales by the Respondent in its proprietary account. The Respondent in its reply vide letter dated March 01, 2011 stated that these shares were available in the account of Mr. Imran



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who is director of the Respondent ("Director") and the said shares were borrowed from him. The CDC Account Balance Report of the Director indicating available position of the shares of KESC as on January 10, 2011 was also provided.

4. The above mentioned reply of the Respondent was not considered satisfactory as it contained no evidence and justification regarding the execution of Blank Sales in its proprietary account. Consequently, SCN was issued to the Respondent under 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 required to appear in person or through an authorized representative before the undersigned at Commission's Karachi Office on April 12, 2011 for hearing at 11:00 a.m. However, the Respondent did not appear at the scheduled time of hearing and was reminded via phone call. The Company Secretary of the Respondent informed that they over looked the date of hearing due to some other engagements. Therefore, a revised time of hearing was fixed at 12:30 p.m. on the Respondent's request. It is pertinent to mention here that the Respondent neither acknowledged the receipt of the SCN though return fax as categorically instructed in SCN nor submitted its written reply of the SCN to the Commission.
5. Subsequently, Mr. Yasin Chaudhary, Chief Financial Officer & Company Secretary ("CFO") attended the hearing on behalf of the Chief Executive Officer and made the following submissions:
  - a) The Blank Sale transactions as highlighted by the Commission were an unintentional trades on their part. The Respondent did not use the F-8 window to mark the transaction as Short Sale; however they submitted the CDC Balance Report of one its Director as pre-existing interest in the scrip of KESC.
  - b) The Respondent has always complied with all the directives issued by the Commission and Stock Exchange from time to time and never provided any opportunity of complaint. The transactions in question were not executed with the intention to manipulate the share price of the scrip.
  - c) The CFO requested that the Commission may take a lenient view in this matter and drop the proceedings together with the SCN because the said trades were merely results of ignorance and unawareness, without having fraudulent intentions.



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6. During the course of hearing the attention of the CFO was invited towards the KSE notice # KSE/N-4272 dated August 16, 2010 regarding '*Eligible Securities for Short Sales*', as the scrip of KESC was not in the eligible securities for Short Sale. In reply the CFO stated that it was not in their knowledge.
7. Considering the arguments made by the CFO during the course of hearing, it is established that Respondent has placed the sale orders in its proprietary accounts without having pre-existing interest and without fulfilling the prerequisites of the Regulations. Moreover, the shares lying in the CDC Account of Director can not be accepted as pre-existing interest for the Respondent. The Clause-2 (a) of the Regulations says "*Blank Sales*" means "*a sale by a party that does not own shares or the sales does not constitute a sale with pre-existing interest or is a sale by a party that has not entered into a contractual borrowing agreement to meet the delivery requirements*". Hence, the sale by the Respondent without pre-existing interest and without using Short Sale Window in the proprietary account falls within the ambit of Blank Sale which is prohibited in the Regulations.
8. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the CFO during the course of the hearing, it is established that the Respondent has made the Blank Sale through its proprietary account without having pre-existing interest. Thus the Respondent by executing such transactions 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. 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 the Brokers Rules.
9. It is regrettable to note that the conduct of the Respondent during the course of the subject proceedings was irresponsible and casual. At the outset the Respondent did not acknowledge the receipt of the SCN and subsequently failed to submit the written response to the SCN. Moreover, it failed to appear on the date of hearing on the scheduled time. This improper conduct of the Respondent compels me to take a stringent view of the matter.



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10. The violation of the Rules and Regulations is a serious matter which entitles the Commission to 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. 100,000 (Rupees One 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.
11. 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.
12. 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 (SM)

Announced on May 6, 2011  
Islamabad.