



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

MRA Securities (Pvt.) Limited

Date of Hearing:

January 05, 2010

Present at the Hearing:

Representing the MRA Securities (Pvt.) Limited

(i) Mr. M. Farhan

Chief Operating Officer

(ii) Mr. M. Kamran

Settlement Manager

Assisting the Director (SMD)

(i) Mr. Muhammad Ali

Deputy Director

**ORDER**

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(07) BS/KSE/MSW/SMD/2009/66 dated December 09, 2009 ("the SCN") issued to MRA 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 the trading data of the KSE, it was observed that on September 28, 2009 the Respondent in its Proprietary Accounts first sold 1,695,000 shares of Jahangir Siddiqui & Company Limited ("JSCL") between 09:30:10 a.m. to 09:30:35 a.m. and subsequently squared its position to the extent of 1,415,000 shares by purchasing these shares between 09:30:38 a.m. to 14:06:38 p.m. The shares were sold from twelve different Proprietary codes of the Respondent



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and orders were placed through eleven trading terminals of the Karachi Automated Trading System ("KATS").

3. The Commission vide letter dated November 16, 2009 sought clarification from the Respondent regarding the above mentioned sale in its Proprietary Accounts. The Respondent in its reply vide letter dated December 05, 2009 stated that the trades in question were executed on behalf of its clients in its Proprietary Accounts and it has already submitted correction list on September 28, 2009 to KSE which showed more than 300 rectification entries consisting 2.1 million shares of JSCL. The copy of said correction list was enclosed with the Respondent's reply. The aforementioned reply of the Respondent was examined and was not considered satisfactory as same did not contain any evidence to prove pre-existing interest in the shares before sale nor did it provide any reasonable justification for execution of clients' orders by the Respondent in its Proprietary Accounts.
4. Therefore, 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 documentary proof within seven days of the SCN and the hearing was fixed at Islamabad for December 30, 2009. However, the date of hearing was changed on the Respondent's request and the hearing was fixed for January 05, 2010.
5. The Respondent submitted a written reply to the SCN vide its letter dated December 18, 2009. The Respondent stated that being a member of the KSE it submits correction list on daily basis and correction list of September 28, 2009 has already been submitted to the KSE. The Respondent further stated that transactions of different clients were executed in its Proprietary Accounts erroneously because of human error which occurred during the peak time of market operations when most of the investors were placing their purchase and sale orders simultaneously. The Respondent also stated that the trades in question were merely result of errors committed by its KATS Operators without having any fraudulent intention.
6. On the hearing date, the authorized representatives of the Respondent Mr. M. Farhan ("CEO") and Mr. Kamran ("Settlement Manager") appeared before me and made the following submissions:



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- (a) The CEO appraised that the Respondent has approximately 50 trading terminals in five different branches at Karachi and all the errors committed by the KATS Operators are duly submitted to KSE at day end through daily correction sheet. The CEO further informed that on September 28, 2009 the share price of JSCL opened at upper cap of Rs. 35.33 and because of large numbers of selling orders from different clients, the Respondent sold the clients' JSCL shares in its Proprietary Accounts to execute their orders on upper cap. Later on, majority of the Respondent's clients bought back JSCL shares at lower rates and these transactions were also executed in Proprietary Accounts of the Respondent. The CEO informed that all the trading entries pertaining to the Respondent's clients were rectified and submitted to the KSE through Trade Modification Report.
- (b) The CEO prayed that the Commission may take a lenient view of the matter and drop the proceedings together with the show cause notice.

7. I have carefully considered the contentions of the Respondent and the issues raised therein and the same are addressed as under:-

- (a) The Respondent in its above mentioned written replies as well as oral contentions made by the CEO during the course of hearing emphasized that JSCL shares were sold and bought in the Respondent's Proprietary Accounts due to errors committed by the KATS Operators. The Respondent in its Proprietary Accounts sold shares of JSCL on September 28, 2009 at upper cap and then through out the day squared its position at lower rates. In this regard, it is pertinent to mention here that a sale transaction of shares is said to be regular when a client has pre-existing interest in the shares before sale. Hence, it is utmost necessary to ascertain whether the Respondent had pre-existing interest against the shares sold. According to Clause-2(g) of the Regulations for Short Selling under Ready Market, 2002 sale with pre-existing interest means:-
- i. *The Squaring up of an earlier purchase on the same exchange in the same settlement.*
  - ii. *The Squaring up of an earlier purchase on the same exchange in a different settlement which will settle prior to the settlement of the sale.*
  - iii. *The Squaring up of an earlier purchase on another exchange in a different settlement which will settle prior to the settlement of the sale.*



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- iv. *The squaring up of an earlier purchase on another exchange in the same settlement.*

The Account Balance Report of the Respondent obtained from Central Depository Company Limited ("CDC") showed that the Respondent had only 630,000 shares available in its CDC House Account. Thus, it is clear that the Respondent has executed sales in its Proprietary Accounts without having pre-existing interest to the extent of 1,065,000 shares of JSCL.

- (b) The CEO claimed that majority of shares sold and bought in Proprietary Accounts actually belonged to Respondent's different clients and shares of JSCL were available in their respective CDC Accounts. During the course of hearing the CEO was asked to provide the details of these clients along with their CDC Account Balance Reports whose order were placed through the Respondent's Proprietary Accounts on September 28, 2009 in the scrip of JSCL. The requisite information was provided by the Respondent through its letter dated January 13, 2010. The Respondent initially stated that all the sales were made on behalf of clients, however, later on it provided clients' trading ledgers and their CDC Sub Account Reports to the extent of 1,021,937 shares of JSCL and CDC statement of its House Account to the extent of 630,000 shares of JSCL.
- (c) The CEO emphasized that on September 28, 2009 the Respondent's different clients wanted to sell the shares of JSCL at upper cap and it was difficult to put individual orders for each client in KATS as there was an apprehension that price of JSCL may decrease so it executed all the clients' orders in its Proprietary Accounts. During the hearing, the attention of the CEO was invited towards Clause 5 of the Regulations for Proprietary Trading, 2004 of KSE under heading of "No Aggregation of Orders" which states that:-

*"A broker shall not aggregate an order for a customer with orders for others customers, or with own account orders."*

In addition to the above, Clause 8 (a) of the KATS Regulations of KSE under the heading of "Insertion of Client's Code in every Bid and Offer Through KATS" states that:

*"Every Member while inserting a bid and offer through KATS for each of his clients, shall insert unique Clients Codes for those clients which are maintained by them in thier back office system and registered with NCCPL....."*



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During the course of hearing, the CEO accepted that he had never read the Proprietary Trading Regulations. This clearly indicates that Respondent is carrying out the brokerage business in ignorance of the relevant rules and regulations. However, it is a stated fact that ignorance of law by a person who commits an offence is not an excuse for committing that offense.

- (d) The Respondent in its written replies and CEO at the time of hearing admitted that Proprietary Accounts of the Respondent were used to trade in the scrip of JSCL for its different clients. The above conduct of the Respondent is a serious violation of the Regulations for Proprietary Trading, 2004 and the KATS Regulations of the KSE. This practice of the Respondent to use Proprietary Accounts for its different clients trading compromises transparency and completely defies the purpose of the client code introduced in order to record true identity of the person buying and selling the shares. It is also pertinent to mention here that in order to have fair, efficient and transparent market it is critical that every trade executed at stock exchange should be tracked to recognize true identity of the beneficial owner and it may not be possible if the Respondent keeps on executing the clients' trades in Proprietary Accounts.
- (e) The conduct of the Respondent to place its clients' orders into KATS with Proprietary codes does not show that the Respondent acted with due care, skill and promptitude and this practice can also jeopardize its client's interest as at the end of the day it is up to the Respondent to allocate the clients' orders in any account to whom it desires. Thus the Respondent is at liberty to allocate the trades in such a way that it covers any market abuse/malpractice conducted during the day. Moreover, allowing the Respondent to deal on behalf of different clients through Proprietary Accounts imply that there would be no audit trail and any dispute between the clients and the Respondent would be difficult to resolve.
- (f) In order to look into the matter in detail, the KSE was also asked to provide the Trade Log Modification Report ("TLMR") of the Respondent for the month of September, October and November 2009. The requisite data was provided by KSE and after scrutiny of data it was revealed that the Respondent used to submit TLMR containing large number of entries on daily basis to KSE. However, TLMR of September 28, 2009 of the Respondent showed only six



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rectifying trading entries of JSCL for three clients involving only 62,300 shares. In this regard, the Commission sought explanation from the Respondent vide letter dated February 24, 2010. The reply was received from the Respondent which simply stated as under "We would like to bring into your notice that we have already submitted modified report to KSE pertains to trading of JSCL shares". However, no explanation and evidence was provided by the Respondent regarding submission of false documents to the Commission.

- (g) From the written replies and subsequent documents submitted by the Respondent and contentions and averments made by the CEO during the hearing, it is clearly established that incongruent statements were made by the Respondent regarding the trading of JSCL shares in its Proprietary Accounts. It is evident from the fact that the Respondent vide its letter dated December 05, 2009 to the Commission provided a correction list of September 28, 2009 submitted to KSE containing over 300 rectifying entries of 2.1 million shares of JSCL. On the contrary, the TLMR of September 28, 2009 obtained from KSE showed that the Respondent only submitted six rectifying trading entries of JSCL having volume of 62,300 shares only which clearly shows that the Respondent furnished wrong and misleading information to the Commission. In this regard, attention is invited towards Section 18 the Ordinance under the heading of "Prohibition of false statements etc."- which is reproduced hereunder for reference :-

*"No person shall, in any document, paper, accounts, information or explanation which he is, by under this Ordinance, required to furnish, or in any application made under this Ordinance, make any statement or give any information which he knows or has reasonable cause to believe to be false or incorrect in any material particular".*

In addition to the above the Rule 8 (viii) of the Brokers Rules states that:-

*"Where the Commission is of the Opinion that a broker has furnished wrong or false information."*

*the Commission may, if it considers necessary in the public interest so to do, by order in writing:-*



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- (a) *suspend the registration of a broker for such period as may be specified in the order; or*
- (b) *impose on a broker a fine not exceeding one hundred thousand rupees:"*

From the above it is very evident that the Respondent furnished false information to the Commission, therefore, violated the Section 18 of the Ordinance and Rule 8 (viii) of the Brokers Rules.

8. It may further be noted that KSE vide its letter no. KSE/N-4848 dated August 07, 2006 requires that "if inadvertent mistake taking place in the input of any transactions, the members may amend their records in such circumstances provided they report such error in writing to the KSE on the same day for its proper documentation and proof". From the information provided by the KSE, it has been noticed that the Respondent is used to report a large number of mistakes on daily basis to KSE which clearly shows that the Respondent is not executing its business with due care and skill neither its has proper systems and controls in place which could prevent execution of such erroneous trades or practice of the Respondent to use the Proprietary Accounts for the execution of clients' orders.
9. Considering the facts and thoroughly evaluating the evidence/information available on record and after perusal of assertions made by the CEO, it is established that the Respondent has placed the sale orders in its Proprietary Accounts without having pre-existing interest. The assertion of the Respondent that different clients' trades were executed in Proprietary Accounts due to human error and same were being notified to the KSE does not hold true as the correction report submitted to KSE only mentions correction of trades involving only 62,300 shares. The Respondent's assertion that it has large numbers of clients and trading volume does not justify execution of such large number of erroneous trades. The Respondent by executing sales in Proprietary Accounts without having pre-existing interest, by submitting a false information to the Commission and by aggregating its clients' orders in Proprietary Accounts has violated the provisions of the Ordinance and the KSE Regulations which in turn is violation of Code of Conduct set fourth under the third schedule of Brokers Rules.
10. The execution of abovementioned trades shows that the Respondent has failed to maintain high standards of integrity, promptitude and fairness in conduct of its business. The Respondent has adopted a practice which has potential risk for the Respondent itself, its clients and whole market. The Respondent has infact indulged in



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improper and undesirable conduct on the stock exchange. The Respondent did not comply with the statutory requirements of the Code of Conduct as enshrined in the Brokers Rules. Therefore, the Respondent acted in violation of Rule 8 (iv), read with Rule 12 of the Brokers Rules.

11. It is pertinent to mention here that the Commission had earlier passed an order dated June 09, 2009 against the Respondent under Section 22 of the Ordinance. The Commission vide said order had directed the Respondent to ensure that full compliance be made of all rules, regulations and directives of the Commission and the stock exchanges in future for avoiding any punitive action under the law. The Respondent was again strictly warned through letters dated August 18, 2009 and August 25, 2009 to conduct its business with due diligence, care and skill failing which appropriate action can be taken against it. It is regrettable to note that despite of earlier warnings and cautions of the Commission, the Respondent continuously indulged in trading activities that are not permitted in the law. The aforementioned clearly shows relaxed and casual attitude of the Respondent towards compliance and its conformity with the applicable rules and regulations. The Commission has taken a very serious note of such conduct of the Respondent.
12. I am of the considered view that unfair trade practices are detrimental for the growth and development of the market and undermine market integrity. It is the responsibility of each and every market participant to play its due role to ensure that market is fair, efficient and transparent for the protection of investors and to reduce the systematic risk of the market. If any market participant does not act accordingly then it should be held accountable for that. The above-mentioned trading activities of the Respondent interfered with the fair and smooth functioning of the market and also damaged the interest of other investors who were trading in the stock market. 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 Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 2,500,000 (Rupees Two Million Five Hundred 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 serious punitive action under the law.

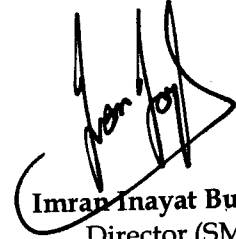




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13. The matter is disposed of in the above manner and the Respondent is directed to deposit the fine in the account of the Commission being maintained in the designated branches of MCB Bank Limited not later than thirty (30) days from the date of this Order and furnish the copy of the deposit challan to the undersigned.
14. 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 (SM)

Announced on March 05, 2010  
Islamabad.