



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Through Courier

Before the Director/HOD (Market Supervision & Capital Issues Department)

in the matter of Show Cause Notice issued to JS Global Capital Limited

Date of Hearing:

February 03, 2012

Present at Hearing:

(i) *Mr. Kamran Nasir*

CEO, JS Global Capital Limited

(ii) *Mr. Rashid Sadiq*

Authorized Representative

Assisting the Director (MSCID)

(i) *Mr. Umair Zahid*

Assistant Director (MSCID)

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1 (7) IT/MSW/SMD/2011/09 dated November 28, 2011 (“SCN”) under Section 22 of the Securities & Exchange Ordinance, 1969 (“the Ordinance”) issued by the Securities and Exchange Commission of Pakistan (“the Commission”) to JS Global Capital Limited (“the Respondent”).
2. At the outset, it is imperative to give an account of the facts relating to the case. The Respondent is a corporate member of Karachi Stock Exchange (Guarantee) Limited (“KSE”) and is registered with the Commission under the Brokers & Agents Registration Rules, 2001 (“Brokers Rules”).
3. On perusal of trading data of Karachi Automated Trading System of KSE, it was observed that five individual clients of the Respondent namely Mrs. Nasim Akhtar (“NA”), Ms. Nimra Malik (“NM”), Mrs. Shahana Nafees (“SN”), Mr. Muhammad Raheel Siraj (“RS”) and Mrs.



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Farzana Rauf (“FR”), collectively referred to as the “**Individual Clients**” traded extensively in shares of a number of companies.

4. The analysis of trading data revealed that the Individual Clients traded in their accounts at the Respondent from May 29, 2009 to May 10, 2011. The trading information further revealed that a total of 1,628 trading instances were recorded in the accounts of Individual Clients during the subject period. For the purpose of simplicity, a trading instance is taken to be the total trading conducted in single scrip by the client during a given day. It was noted that out of the total 1,628 trading instances, 1,418 trading instances involved where Individual Clients purchased and sold exactly the same number of shares in a given scrip on the same trading day (“**Day Trading**”). The remaining 210 trading instances represented situations when purchase and sale quantities of shares in the account of Individual Clients on a given trading day in a certain scrip did not set off completely (“**Position Trading**”).
5. It was noted that a significant majority of trading in the accounts of Individual Clients was directly synchronized with the placement of orders and trading of foreign clients of the Respondent. In addition to this, it was noted that a major portion of trading by Individual Clients matched directly with the trading of foreign clients. However, in some instances, trading of Individual Clients was in synchronization with trading by local institutional clients of the Respondent. In a coordinated manner, Individual Clients used to place orders to purchase shares of companies around the same time when foreign and local institutional clients were placing orders to purchase/sell shares of the same companies through the Respondent. It was noted that over 63% of the synchronized trading by Individual Clients in the Day Trading instances matched directly with the corresponding trades of foreign and local institutional clients. As a result of such Day Trading instances, Individual Clients earned a cumulative profit of over Rs. 8.70 million in their accounts.
6. Considering the nature of trading by Individual Clients and their connection with corresponding trading by foreign and local institutional clients of the Respondent, the account details including account opening forms, trading statements, financial ledgers, record of



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trading orders, and details of receipts and payments for NA, NM and RS were obtained from the Respondent to ascertain the manner, in which the trading was being conducted in their accounts. The analysis of the information revealed that NA and NM were close relatives of the then senior executive of the Respondent who was involved in trading and sales function. Taking cognizance of the matter, the Commission took enforcement action against the senior executive of the Respondent for passing on inside information concerning trading and orders of foreign institutional clients of the Respondent to his relatives, whereupon, NA and NM traded on the basis of that inside information. Resultantly, the Commission also took action against NA and NM for conducting insider trading.

7. The trading pattern of Individual Clients and their significant synchronization with trading of foreign and local institutional clients of the Respondent along with the observation of strong relationship of the some of the Individual Clients with senior executive of the Respondent, *prima facie*, indicated that the Respondent failed to provide best execution to its foreign and local institutional clients. Moreover, it transpired that the Respondent failed to protect confidential information relating to large trading orders and investment decisions of these institutional clients, which was being used by Individual Clients for their own trading purposes. Consequently, SCN was issued to the Respondent to explain as to why action should not be taken against it under Section 22 of the Ordinance. The Respondent was required to appear in person or through an authorized representative before the undersigned at the Commission's Head Office on December 15, 2011 for a hearing.
8. The Respondent requested through RS Corporate Advisory (Pvt) Limited for extension in time of one month to respond to SCN vide letter dated December 08, 2011. Consequently, the Respondent was required to submit the response to SCN by January 06, 2012 and date of hearing was fixed on January 13, 2012. However, RS Corporate Advisory (Pvt) Limited vide letter dated January 06, 2012 again requested for further time in replying to SCN. The subject request of extension was acceded to and additional time to respond to SCN was granted up to January 24, 2012. Accordingly, the date of hearing was fixed on February 03, 2012.



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9. The Respondent provided its written response to SCN vide letter dated January 24, 2012, the key points and submissions of which are as follows:
- (a) *The Respondent was unaware of any investigation being conducted by the Commission.*
 - (b) *The Respondent believes in operating in the highest level of legal and ethical standards and its management cannot even think of violating the provisions of the Code of Conduct of Brokers Rules.*
 - (c) *The Respondent asserted that the observation of the Commission that it had no proper policies to ensure best execution to its clients is without any basis.*
 - (d) *The premise of the Commission's enquiry is trading conducted by individual clients who had conducted insider trading and the Respondent was not involved in any such proceedings.*
 - (e) *The Respondent further stated that it had very prestigious status in terms of research and trading services internationally and was recipient of the top companies award of KSE.*
 - (f) *Despite having ample liquidity, the Respondent doesn't engage in proprietary trading to avoid competition with its clients, which is in line with higher standards envisioned by the senior management and its Board of Directors of integrity and impartiality.*
 - (g) *Due to the decision of the Respondent of not engaging in proprietary trading has helped in avoiding all kinds of conflict of interests with the clients. Any action of insider trading by employees cannot be attributed to the Respondent.*
 - (h) *The Respondent highlighted its controls and policies in place to govern the activities of its employees and to monitor their activities in order to avoid any disorderly behavior from the employees.*
 - (i) *The Respondent emphasized on its investment in infrastructure and human resource development to eliminate any possible compromise on internal controls.*
 - (j) *The Respondent had received notable awards and credits from international association and bodies on best practices and conduct of business fairly.*
 - (k) *The Respondent is respected in the industry as the most transparent and compliant institution with high governance standards.*
 - (l) *The fraudulent activities and rogue behavior of employees cannot be attributed to the organization, where the organization was not the direct beneficiary and had no direct involvement.*



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- (m) *The Respondent stated that in anticipation of the findings and proceedings of the Commission, the Respondent had laid off three employees who were alleged to be the miscreants.*
- (n) *The Respondent had not violated any provisions of the Code of Conduct of Brokers Rules, and has acted in integrity and fairness in conduct of business.*
- (o) *The Respondent has acted with due skill and care and has placed strong form of controls and procedures to ensure this.*

10. On the date of hearing, the Chief Executive of the Respondent along with Mr. Rashid Sadiq (“**Authorized Representative**”) appeared before me and reiterated the submissions as made in the written reply stated above. In addition to the same, the Chief Executive and the Authorized Representative of the Respondent made the following further contentions:

- (a) The Authorized Representative stated that the SCN is based on some investigation to which the Respondent was not made privy.
- (b) The Authorized Representative stated that the SCN was issued against contravention of provisions of Brokers Rules which attracts penal provision provided in the Brokers Rules rather than the Ordinance.
- (c) The Authorized Representative mentioned that the Respondent was never enquired by the Commission about its controls and policies. As such, there are no defined controls and policies in the Code of Conduct set forth under the Brokers Rules.
- (d) The Authorized Representative mentioned that the SCN is based on insider trading activities by the sacked employee of the Respondent and his family member and the Respondent was never given an opportunity to present itself. The Authorized Representative stressed that actions of employees are different from those of their employers and based on this, the Respondent cannot be made responsible for any misconduct of its employees



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- (e) The Chief Executive of the Respondent informed that high levels of controls and policies are in place to oversee the activities of the employees.
- (f) The Chief Executive informed that he was unaware that the individual clients highlighted by the Commission were close relatives of the employee. The Authorized Representative informed that three employees of the Respondent were dismissed as a result of non-compliance of policies and controls.
11. During the course of hearing, the Chief Executive of the Respondent was advised to submit the detailed policies and procedures of the Respondent as amply referred and quoted in the written reply to SCN as well as during the hearing by February 15, 2012. However, the Respondent vide letter dated February 14, 2012 sought extension for the submission of policies and procedures till February 29, 2012, which was acceded to. The Respondent was also required to submit the termination letters/orders for the employees as a result of non-compliance of policies and controls. The requisite documents were received from the Authorized Representative of the Respondent on March 05, 2012.
12. I have examined the facts, evidences and documents on record, in addition to written and verbal submissions made on behalf of the Respondent and the documents submitted subsequent to the hearing. This forum is of the view that the employees of the Respondent misused the information regarding trading decisions provided by the foreign and local institutional clients of the Respondent. Consequently, the trading by the Individual Clients was not by any means in accordance with the legitimate and fair market practices. This collectively resulted in compromised execution of orders to foreign and local institutional clients of the Respondent.
13. Additionally, the time span of around two years, i.e. from May 29, 2009 to May 10, 2011 involved in the suspected trading by the Individual Clients, which was in collusion with the employees of the Respondent is quite significant. This has caused suspicion that these activities went undetected by the Respondent, despite the strong controls and policies as signified by the Respondent in the written response to SCN and the assertions made by the



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Chief Executive and Authorized Representative during the course of hearing, given this fact that these trading activities were first identified and pursued by the Commission.

14. This office has also perused and analyzed the policies and procedure documents provided by the Respondent to substantiate its stance in the matter. The policies covered a wide array of areas including the human resource policy, the operational controls and the equity sales and operations policy. The policies submitted by the Respondent have incorporated various key issues for ensuring adherence to controls and restrictions laid out to avoid any kind of conflict. The disclosure policies binding on employees of the Respondent were also carefully analyzed.

15. In view of the foregoing, we are of the view that the trading activities conducted by the Individual Clients were based on the material non-public information relating to the trading and orders of the foreign and local institutional clients of the Respondent. This is further signified that the employees of the Respondent, including the senior officials, were assisting and aiding in the suspected trading activities of the Individual Clients, compromising the fair execution to foreign and local institutional clients.

16. Nevertheless, given the submissions and assertions made by the Respondent and its representatives, and after heedfully analyzing the policies and procedures of the Respondent, it is likely that the Respondent may not be aware of the activities of the Individual Clients in collusion with its employees to trade on the basis of material non-public information. The assumption regarding non-involvement of the Respondent in activities of the Individual Clients is further supported by the fact that it took timely action against the employees found to be non-compliant of the policies and controls.

17. However, this office also considers it necessary to record its deep concern over the failure of the detection mechanism of the Respondent, despite all its stated controls and policies established to oversee the activities of its employees. The activities of the Individual Clients and their assistance by the senior employees of the Respondent were not caught and no red



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flag was generated by any control filter of the Respondent until highlighted by the Commission.

18. Given the above findings, the Respondent is hereby reproached and censured for conduct which does not commensurate with high standards of conduct expected of the Respondent and is advised to ensure that no employee or their associated persons should be allowed or given any opportunity to take unfair advantage of their position at the expense of other clients of the Respondent. It is also stressed that the Respondent should ensure protection of confidentiality of material non-public information relating to investment decisions and trading and orders instructions given by all its clients to avoid any form of non-compliance to Code of Conduct set forth under the Brokers Rules.
19. This matter is disposed of in the above manner and the Respondent is directed to ensure compliance of the laws and policies and directives of the Commission.
20. 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 (MSCI)
Securities Market Division

Announced on March 20, 2012
Islamabad.