



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN

(Securities Market Division)

Market Supervision and Capital Issue Department

Before The Director / HOD (MSCID)

In the matter of Show Cause Notice issued to

Equity Master (Pvt.) Limited, Member Lahore Stock Exchange Limited

Date of Hearing:

August 02, 2012

Present at the Hearing:

Representing Equity Master (Pvt.) Limited

Mr. Tahir Anwar

Chief Operating Officer

Assisting the Director (SMD)

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/2011 dated July 19, 2012 ("SCN") issued to Equity Master (Pvt.) Limited ("**Respondent**"), corporate member of the Lahore Stock Exchange Limited ("**LSE**") by the Securities and Exchange Commission of Pakistan ("**Commission**") under Section 22 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**") and Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**Brokers Rules**").

2. The brief facts of the case are that the Respondent is registered with the Commission under the Brokers Rules. On perusal of the trading data of the Karachi Stock Exchange Limited ("**KSE**") for the month of April and May 2012, it was noted that the Respondent's client namely Azeem Chaudhry ("**Client**") had been engaged in selling and then squaring up his position in different scrips through trading as inter - exchange client of KSE brokers i.e. HH Misbah Securities (Pvt.) Limited and Darson Securities (Pvt.) Limited ("**KSE Members**").

3. During the month of April 2012, the Client first sold and then squared up positions in the scrips of Arif Habib Corporation Limited ("**AHCL**"), Askari Bank Limited ("**AKBL**"), Azgard Nine Limited ("**ANL**"), Bank Al-Falah Limited ("**BAFL**"), The Bank of Punjab



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Limited ("BOP"), Dewan Cement Limited ("DCL"), Engro Polymer & Chemicals Limited ("EPCL"), Fatima Fertilizer Company Limited ("FATIMA"), Fauji Fertilizer Bin Qasim Limited ("FFBL"), JS Bank Limited ("JSBL"), Jahangir Siddiqui Company Limited ("JSCL"), JS Investment Limited ("JSIL"), Lucky Cement Limited ("LUCK"), Maple Leaf Cement Factory Limited ("MLCF"), National Bank of Pakistan ("NBP"), Nishat Mills Limited ("NML") and Pak Elektron Limited ("PAEL").

4. During the month of May 2012, the Client first sold and then squared up positions in the scrips of Bankislami Pakistan Limited ("BIPL"), D. G. Khan Cement Company Limited ("DGKC"), Engro Foods Limited ("EFOODS") and Pakistan Telecommunication Limited ("PTC").

5. The Commission vide its letter dated July 03, 2012 sought clarification from the Respondent regarding the short sales in twenty one different scrips executed by its Client through the KSE Members. In response the Respondent vide its letter dated July 07, 2012 replied that the Client used to trade through KSE members and often his daily trading reflect nil position, therefore, the Respondent was unable to deduct the short selling of the Client. According to the Respondent the CTRF system is installed in its back office at LSE to avoid short selling but at KSE platform such type of system is not available. The Respondent further stated that the trading account of the Client has been closed in National Clearing Company of Pakistan ("NCCPL") and Central Depository Company of Pakistan ("CDC") as well.

6. The aforementioned response of the Respondent was not considered satisfactory as it did not contain any evidence and justification regarding the execution of short sales by its Client through KSE Members. Consequently, SCN dated July 19, 2012 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 through this SCN was asked to explain its position through written reply within seven (7) days of issuance of SCN and also appear in person or through an authorized representative before the undersigned at Commission's Head Office, Islamabad on August 02, 2012 at 10:30 a.m. for hearing.

7. The Respondent vide letter dated July 07, 2012 submitted its response to the SCN. The important contentions raised in the response are reproduced hereunder:-



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- i) *"We have launched CTRF, which provides auto check to avoid short/blank sell on Ultra Trading System in LSE. Therefore, short/blank sell is not possible at our end in LSE Platform. Therefore, for the promotion of our business and to facilitate our clients for rapid execution of orders at the best market rates during buying and selling of shares. We have got online trading system from some KSE members as well."*
- ii) *"We are "the Client" under the KSE Members. It is worth mentioning to point out that we have given clear instructions to our concerned KSE Brokers to put a proper check on their trading systems to avoid short/blank sell but they did not comply with our instructions probably because of high turnover generated by that particular client."*
- iii) *"We would like to submit that as soon as it was come to our notice, that the client (Azeem Chaudhry) is playing both ends. We decided to closed his NCCPL and CDC account because we noted with great concern that the said client who has been trading directly through KSE members was involved in cheating our brokerage House. It was due to lose control at the end of KSE Brokers."*
- iv) *"Therefore, we hold a strong opinion that the concerned KSE Brokers were at the frontline to combat the illegal attitude of short selling by the client on the spot. And they played a major role in this case and, therefore, responsibility may be fixed on the concerned KSE Broker."*
- v) *"We would like to further explain that there is absolutely no willful attempt or contention on our part to breach the law in respect of the entire transactions of Client .Therefore, it is our humble submission that the matter may kindly considered optimistically & sympathetically with soft and lenient view to wave off the observation'.*

8. On the date of hearing Mr. Tahir Anwar, Chief Operating Officer ("**Representative**") appeared on behalf of the Respondent. During the course of hearing, the Representative made the following submissions:



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- i) The Representative contended that no case of short selling was made previously against the brokerage house as they have placed CTRF system to avoid short selling. There is clear instruction by CEO of brokerage house to block the trading of the clients who had no buying position in the scrip.
- ii) The Representative argued that in this particular case the client made the short selling through KSE Members by using online trading terminal due to which we were unable to deduct the trading pattern of the Client. As soon as we came to know that the Client executed short sales in different scrips we closed his trading account immediately.
- iii) The Representative emphasized that all the transactions in question were not executed with malafide intentions and no material benefit was gained through these transactions. The Representative prayed that the Commission may take a lenient view in this matter and drop the proceedings together with the show cause notice because the said trades were merely result of ignorance and unawareness, without having any fraudulent intentions.

9. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representative during the course of the hearing, it is established that the Client of the Respondent placed the sale orders without having pre-existing interest. It was the responsibility of the Respondent to monitor all trading activities being carried out by its clients in order to track and prevent any transaction being made in violation of any applicable rules and regulations. The Respondent has failed to exercise due care, skill and diligence in conduct of its business and has also failed to abide by the provisions of the Rules & Regulations issued by the Commission and LSE from time to time, thus violated the Clause A(2) and A(5) of the Code of Conduct set forth under the third schedule of the Brokers Rules and which in turn is violation of Rule 12 of the Brokers Rules read with Rule 8 of the Brokers Rules.

10. It is regrettable to note that before taking notice of the short selling by the Commission, the Client of the Respondent continuously executed short sales and indulged



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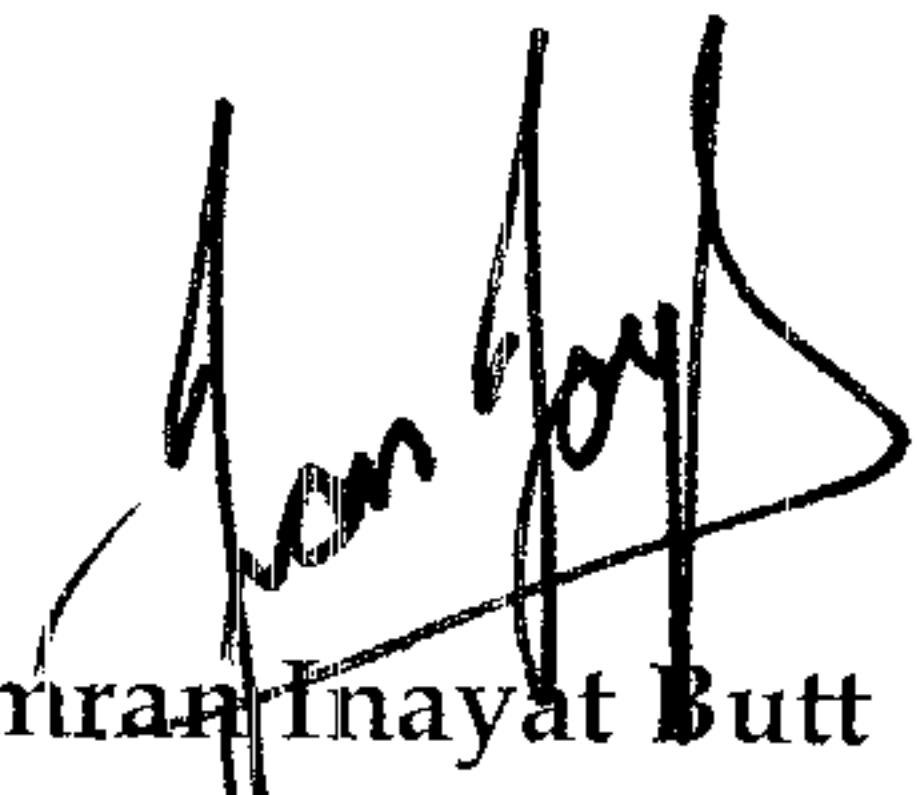
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in trading activities that are not permitted in the law. It clearly shows relaxed and casual attitude of the Respondent towards compliance and its conformity with the applicable rules and regulations. The Commission has taken a very serious note of such conduct of the Respondent.

11. 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 Client 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 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. 50,000 (Rupees Fifty Thousand only). Additionally, I strongly advise the Respondent to take immediate measures and put in place proper system and checks to eliminate the occurrence of such instances in future. I again 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.

12. 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.

13. 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)

Announced on September 17, 2012
Islamabad.