



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

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

In the matter of Show Cause Notice No. 1(3)INS/MSW/SMD/2012/AMIML-01

dated 5/01/2012 issued to Al Meezan Investment Management Limited

under Section 15E (3) of the Securities & Exchange Ordinance, 1969

Date of Hearing:

January 27, 2012

Present at Hearing:

Representing the Respondent

(i) *Mr. Muhammad Asad*

Chief Investment Officer,

Al Meezan Investment Management Ltd

(ii) *Mr. Jaseem Ahmed Khan*

Compliance & Internal Audit,

Al Meezan Investment Management Ltd

Assisting the Director/HOD (MSCID)

(i) *Mr. Osman Syed*

Deputy Director, SECP

ORDER

1. This Order shall dispose of the proceedings pertaining to the Show Cause Notice bearing No. 1(3)INS/MSW/SMD/2012/AMIML-01 dated January 05, 2012 (“**Notice**”) under section 15(E) of the Securities and Exchange Ordinance, 1969 (“**Ordinance**”) served on M/s. Al Meezan Investment Management Limited (“**AMIML**”)(“**Respondent**”) through its Chief Executive.
2. The facts leading to this case are that, the Securities and Exchange Commission of Pakistan (“**Commission**”), while examining the Off Market trading data of the Karachi Stock Exchange



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Supervision and Capital Issues Department)

Continuation Sheet - 1 -

(Guarantee) Limited (“KSE”) for October 18, 2011 observed that Xenel International (“Xenel”) sold 142 million shares of Hub Power Company Limited (“HUBCO”) at Rs. 37 per share (Ex-Dividend); which was approximately equivalent to Rs. 40 per share on cum dividend basis (HUBCO announced 30% dividend per share). Out of 142 million shares sold by Xenel, 12.523 million shares were acquired by different funds under the management of AMIML.

3. On examination and scrutiny of trading data of Karachi Automated Trading System of KSE, it was observed that during the period of October 10, 2011 to October 14, 2011 there were unusual heavy volumes in the scrip of HUBCO. During the said period, the daily average volume traded in the scrip was about 10.729 million shares, whereas in comparison in the preceding period i.e. September 03, 2011 to October 07, 2011, the daily average volume traded in HUBCO was only 1.120 million shares. The price history of share of HUBCO from October 03, 2011 to October 18, 2011 is as follows:

TRADING DATE	TRADED VOLUME (Shares)	TRADED VALUE (Rs.)	OPEN PRICE (Rs.)	HIGH PRICE (Rs.)	LOW PRICE (Rs.)	CLOSE PRICE (Rs.)
10/3/2011	651,482	26,995,961	41.5	41.55	41.26	41.47
10/4/2011	1,458,769	61,210,524	41.47	42.19	41.5	41.86
10/5/2011	2,096,429	88,203,631	41.86	42.25	41.61	41.71
10/6/2011	1,155,524	48,106,854	41.71	41.9	41.35	41.52
10/7/2011	237,825	9,905,999	41.52	41.9	41.5	41.68
10/10/2011	12,961,402	556,686,797	41.68	43.76	42.36	42.57
10/11/2011	22,469,164	946,126,175	42.57	43.17	41.62	41.67
10/12/2011	8,435,425	355,449,170	41.67	42.25	41.81	42
10/13/2011	2,083,343	86,940,247	42	42.2	41.4	41.63
10/14/2011	7,699,265	311,226,146	41.63	41.49	40.02	40.2
10/17/2011	1,236,530	46,236,520	37.2	37.8	37.1	37.41
10/18/2011	3,227,655	120,961,101	37.41	37.8	37.16	37.25

4. The aforesaid examination further revealed that different funds under the management of AMIML traded heavily in the scrip of HUBCO as AMIML through its funds cumulatively sold 2,636,504 shares at an average rate of Rs. 42.12 per share in the Ready Market during 10 to 11 October, 2011 and 13 to 14 October, 2011 a few days prior to the divestment of 142



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Supervision and Capital Issues Department)

Continuation Sheet - 2 -

- million shares of HUBCO by Xenel. Accordingly, different funds administered by AMIML made a cumulative gain of approximately Rs. 5.589 million (Rs. 2.12 per share on the sale of 2,636,504 shares) in the transactions detailed above.
5. The Commission, vide its letter No. Misc/MSW/SMD/1(5)2004/1453 dated November 04, 2011, requested AMIML to provide certified copy of the minutes of the meeting of the investment committee in which the decision with respect to purchase of HUBCO shares was approved. Further, AMIML was also asked to provide the date on which the offer for the divestment of HUBCO shares by Xenel came to its notice.
 6. The AMIML vide its letter no. AMIM/11/0443 dated November 11, 2011, replied that Invisor Securities (Pvt.) Limited offered the off market deal of sale of shares of HUBCO on October 17, 2011 and the members of the Investment Committee after due consideration of the offer in its meeting held on October 18, 2011 gave its consent of the transaction. Thereafter, on behalf of Meezan Islamic Fund (MIF) 7.223 million shares of HUBCO were purchased from Invisor Securities (Pvt.) Limited without knowledge of the counter party selling the shares. However, there were rumors in the market for past several weeks that one of the sponsors of HUBCO is interested in selling its holding in the Company
 7. *Prima facie*, it appeared that the information regarding disposal of Xenel's holding in HUBCO was inside information in terms of section 15B(1)(a) of the Ordinance. On the basis of the aforesaid, it appeared that the Respondent disposed off its holding in HUBCO on the basis of that inside information, at higher rates on 10 -11 October 2011 and 13-14 October 2011, with the intention to buy back the shares once the price becomes lower, following the floatation of 142 million HUBCO shares in the market.
 8. In view of the above, the Notice was issued to the Respondent under Section 15(E) of the Ordinance, advising the Respondent to explain within 10 days of the date of the Notice as to why appropriate action may not be taken against it under the law on the contravention of subsection (1) of section 15A of the Ordinance.
 9. In response to the Notice, the Respondent submitted its reply vide letter no. AMIM/SECP/12/0011 dated 13/01/2012 wherein it was contended that Respondent had no inside information regarding the sale of shares by Xenel. It was further contended that rumors in the market cannot be construed as inside information. The Respondent further submitted



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Supervision and Capital Issues Department)

Continuation Sheet - 3 -

- that investment decision making by Respondent is based on fundamental information, technical analysis and market sentiments. All these factors justified disposal of HUBCO shares when the share price touched the highest level in eight years. The Respondent asserted that it acted in best interest of its unit holders by disposing off shares at the highest price which subsequently came down. The Respondent vehemently denied the allegation of insider trading and claimed that it acted in good faith and fulfilled its fiduciary responsibilities.
10. The hearing in the matter was held on January 27, 2012 at Karachi wherein Mr. Muhammad Asad and Mr. Jaseem Ahmed Khan, (“**Authorized Representatives**”) appeared before the undersigned on behalf of the Respondent and reiterated the same arguments and contentions which were submitted in the response to the Notice.
11. During the course of hearing, the Authorized Representatives informed that the Respondent purchased only 12.523 million shares of HUBCO through Invisor Securities (Pvt.) Limited and the Respondent had no direct contact with the seller at any stage of the deal and also had no communication with any other buyer of the block deal.
12. I have examined the facts, evidence and documents on record, in addition to written and verbal submissions made on behalf of the Respondent. My findings on the arguments and assertions made by the Respondent to the issues raised in the Notice are as follows:
- (i) The Respondent has contended that the subject off market deal was offered on 17 October, 2011 by Invisor Securities (Pvt.) Limited and that it had no information regarding the identity of the seller. This contention appears to have no rational basis, as the structuring of such outsized deals usually requires substantial time. However, nothing is available on record to refute this contention. In support of its contention, the Respondent has submitted the approval of the investment committee which was solicited on October 18, 2011.
 - (ii) The Authorized Representatives contended that rumors circulating in the market do not constitute inside information. They also argued that analysis drawn in research reports of different brokerage houses also do not constitute inside information. The Respondent in support of this argument, presented different research reports, relying on which the Respondent entered into the transactions under question.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Supervision and Capital Issues Department)

Continuation Sheet - 4 -

(iii) The Respondent has raised an important issue that whether trading on rumor constitutes insider trading or not. According to section 15B of the Ordinance, any information which has not been made public relating, directly or indirectly, to listed securities or one or more issuers and which if it were made public, would be likely to have an effect on the prices of those listed securities is inside information. Rumors on the other hand are speculative statements, which are published in the newspapers or otherwise circulating in market. For the fair and transparent functioning of stock market, it should be the duty of the issuer or the insiders to disclose or refute any market rumor which is largely accurate and if the information underlying the rumor is inside information. It can be argued that to constitute material, non-public information, the information must be specific and more private than a general rumor. For example, information about the 'date of a merger announcement' and 'the acquisition price', may be deemed more than general market rumors, particularly if it is specific, reliable information received from a credible source. In the instant case, the said specific information would be the date of materialization of the deal. The information that the large chunk of HUBCO share is up for grabs was circulating in the market but the information regarding the date and manner of materialization of the deal were not available in market. Therefore, in absence of any evidence to the contrary, the submission of the Respondent has credence that it was not privy to any inside information. Therefore, the preponderance of evidence suggests that the transactions dated October 10-11, 2011 and October 13-14, 2011 may not be based on inside information.

(iv) Further, the Respondent by its inherent nature is not engaged in any other commercial or business activities except asset management services. The Respondent is a Non-Banking Finance Company with the main objective to provide asset management services to its unit holders. The Respondent charges management fee from the funds under its management on the basis of their Net Asset Value (NAV) and not on profit sharing basis. It is likely that the profit earned by different funds administered by the Respondent, from the sale of



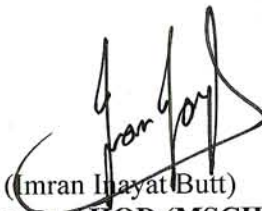
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Market Supervision and Capital Issues Department)

Continuation Sheet - 5 -

HUBCO sharers during 10 to 11 October 2011 and 13 to 14 October 2011 may not have any direct impact on the revenue of the Respondent.

- (v) Having said that, the trading in the scrip of HUBCO by Respondent on October 10-11, 2011 and October 13-14, 2011 does not meet the standards of trading practices that is expected of a major participant in the market, that created doubts and suspicions and resulted in initiation of proceedings by the Commission. The transactions were structured in way which gave impression of insider dealing. Such dubious trading patterns and timing of trades can lead to believe by the Regulator as interference in the fair and proper functioning of the market. The Respondent is a well-reputed and prestigious Asset Management Company of the country and high standards of conduct and compliance is expected of it.

13. In view of the foregoing, the Respondent is hereby reproached and censured for conduct which does not commensurate with high standards of comportment expected of the Respondent and is warned to abstain from trading in such a questionable manner in future which creates suspicions and doubts of insider dealing. This matter is disposed of in the above manner and the management of AMIML is directed to ensure compliance of the laws in letter and spirit.
14. 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:
March 28, 2012
Islamabad.