



# 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/ABL-01 dated 6/01/2012  
issued to Allied Bank 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 Jawaid Iqbal* *Group Head (CIBG),  
Allied Bank Limited*

*Assisting the Director (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/ABL-01 dated January 06, 2012 (“**Notice**”) under Section 15(E) of the Securities and Exchange Ordinance, 1969 ( “**Ordinance**”) served on M/s. Allied Bank Limited (“**ABL**”) (“**Respondent**”) through its President.
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 (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, 8.775 million shares were acquired by the Respondent.



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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 12, 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 14.621 million shares, whereas in comparison in the preceding period i.e. September 05, 2011 to October 07, 2011, the daily average volume traded in HUBCO was only 1.451 million shares. The aforesaid examination further revealed that ABL traded heavily in the scrip of HUBCO as it sold 8,000,000 shares at an average rate of Rs. 42.13 per share and purchased 5,000,000 shares at the average rate of Rs. 42.20 from the Ready Market on October 11, 2011, just a few days prior to the divestment of 142 million HUBCO shares by Xenel. In addition to trades in Ready Market, ABL also sold 2,000,000 shares of HUBCO in Off Market on October 11, 2011. Accordingly, ABL made a gain of about Rs. 11.04 million in the transactions detailed above. The price history of share of HUBCO from October 05, 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.)
10/5/2011	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 Commission, vide its letter No. Misc/MSW/SMD/1(5)2004/1454 dated November 04, 2011, requested the Respondent to provide a 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, the Respondent was also asked to provide the date on which the offer for the divestment of HUBCO shares by Xenel came to its notice.



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5. The Respondent vide its letter no. Nil dated November 14, 2011, replied that the shares of HUBCO were offered to the Respondent on October 17, 2011, by Invisor Securities Limited without disclosing the identity of the seller. However, rumor of a foreign investor looking to sell a major block of HUBCO shares were circulating in the market and the information to this effect was covered in the newspapers and research reports of some local brokerage houses.
6. *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 Respondent disposed off its holding in HUBCO on the basis of that inside information, at higher rates on October 11, 2011, with the intention to buy back the shares once the price become lower, following the floatation of 142 million HUBCO shares in the market.
7. In view of the above, the Notice was issued to the Respondent under Section 15(E) of the Ordinance, directing the Respondent to explain within 10 days of the date of the Notice as to why appropriate action may not be initiated against the Respondent under the law on the contravention the provisions of subsection (1) of section 15A of the Ordinance.
8. In response to the Notice, the Respondent submitted its reply vide letter no. Nil dated 16/01/2012, wherein it was contended that the primary reason for selling HUBCO shares was to achieve internal capital gain target for calendar year 2011. The Respondent argued that the HUBCO stock touched eight year high of Rs. 42.57 (closing price). Therefore, taking advantage of the record stock price, 1.0 million shares of HUBCO were sold at an average price of Rs. 42.20 on October 11, 2011 to meet internal capital gain target. It was further contended that the quantity of HUBCO shares sold on October 11, 2011 was only 20.6% of the total quantity i.e. 48.5 million, held by ABL. The Respondent substantiated this argument with the fact that the purchase of 5 million HUBCO shares on October 12, 2011 by ABL testifies that trades were not based on any inside information.
9. The hearing in the matter was held on January 27, 2012 at Karachi wherein Mr. Muhammad Jawaid Iqbal, ("**Authorized Representative**") appeared before this office on behalf of Respondent and reiterated the arguments and contentions which were submitted in the response to the Notice.



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10. During the course of hearing, the Authorized Representative informed that the Respondent purchased only 8.775 million shares of HUBCO through Invisor Securities (Pvt.) Limited and that the Respondent had no direct contact with the seller at any stage of the deal and ABL also had no communication with any other buyer of the block deal.
11. 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 has been brought on record to refute this contention.
  - (ii) If the trading pattern of the Respondent during the month of October 2011 is examined in juxtaposition, the argument of the Respondent that the trading was not done on the basis of inside information appears to have substance. The transactions on October 11, 2011 although appears to be dubious but the purchase transaction on October 12, 2011 lends support to the view of the Respondent. It is also correct as per record that the share price of HUBCO peaked to an eight year high during the said period. Further, in absence of any clear and convincing evidence that the inside information regarding the sale of shares of HUBCO was available with the Respondent; the preponderance of evidence is in favor of the Respondent.
  - (iii) The actual question for determination in the instance case is whether the Respondent traded on the basis of inside information or not. Admittedly, the information regarding the sale of major block of shares in HUBCO were circulating the market. Without a doubt the information was price sensitive in nature. However, nothing is brought on record to prove that the information regarding the time of the materialization of deal was generally available in the market or with the Respondent at the time of the transactions in question. Since the Respondent contends that the deal was offered on October 17, 2011, which fact has not been refuted, it can be assumed that the inside information regarding the date of materialization of deal was divulged to the



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Respondent on October 17, 2011. Therefore, the trades under discussion appear to be not based on any inside information.

- (iv) Having said that, the trading in the scrip of HUBCO by Respondent on October 11, 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 Bank of the country and high standards of conduct and compliance is expected of it.
12. 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 ABL is directed to ensure compliance of the laws in letter and spirit.
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 (MSCID)

Announced:  
March 28, 2012  
Islamabad.