



Securities and Exchange Commission of Pakistan

Securities Market Division

Through Courier

Before The Director / HOD (MSCID)

in the matter of Show Cause Notice issued to

Axis Global Limited, Broker Karachi Stock Exchange Limited

Date of Hearing:

November 12, 2012

Present at the Hearing:

Representing Axis Global Limited

(i) Mr. Hamad Kehar

Managing Director

(ii) Mr. Naveed Alam

*Partner, Junaidy Shoaib Asad
Chartered Accountants*

Assisting the Director / HOD (MSCID)

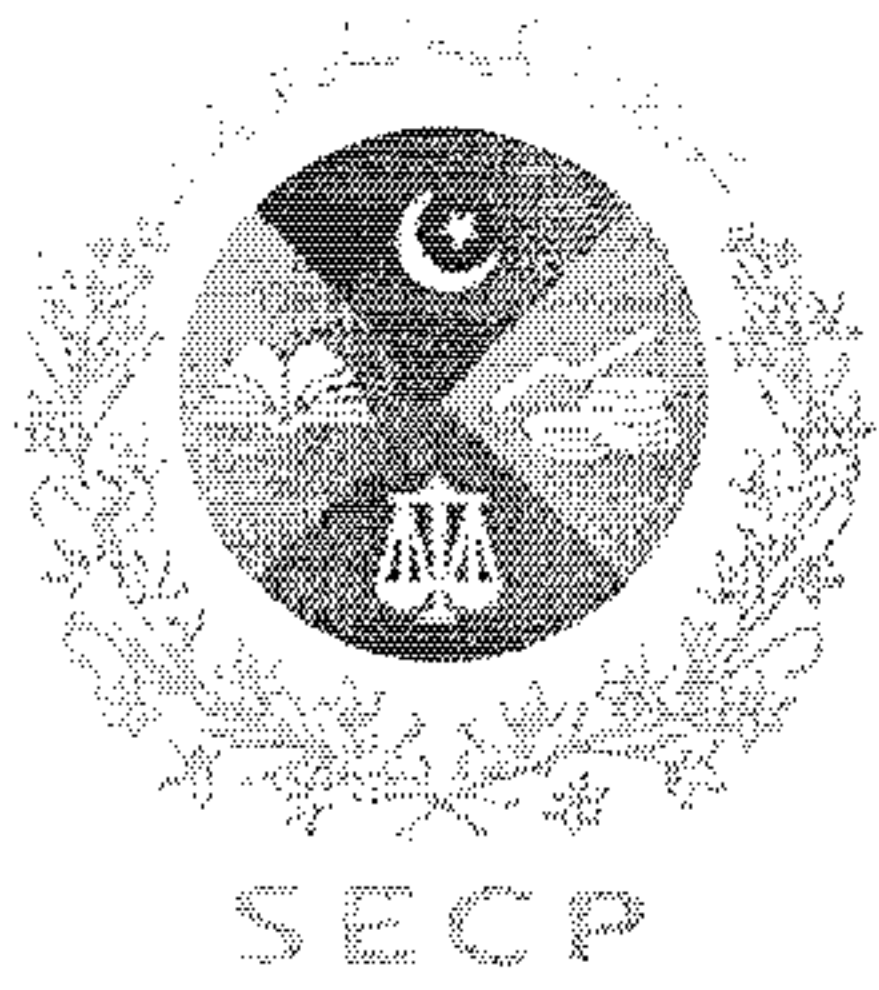
Mr. Muhammad Ali

Deputy Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. Misc./MSW/SMD/1 (5) 2004/1630 dated October 25, 2012 ("SCN") issued to Axis Global Limited ("the Respondent"), Trading Right Entitlement Certificate Holder/Broker of Karachi Stock Exchange Limited ("KSE") 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 as Broker under the Brokers Rules. On perusal of the KSE trading data of September 04, 2012, it was noted that Respondent's client namely Dulhano Mal ("the Client") bought 50,000 shares of Indus Motor Company Limited ("INDU") from Respondent's another client namely State Life



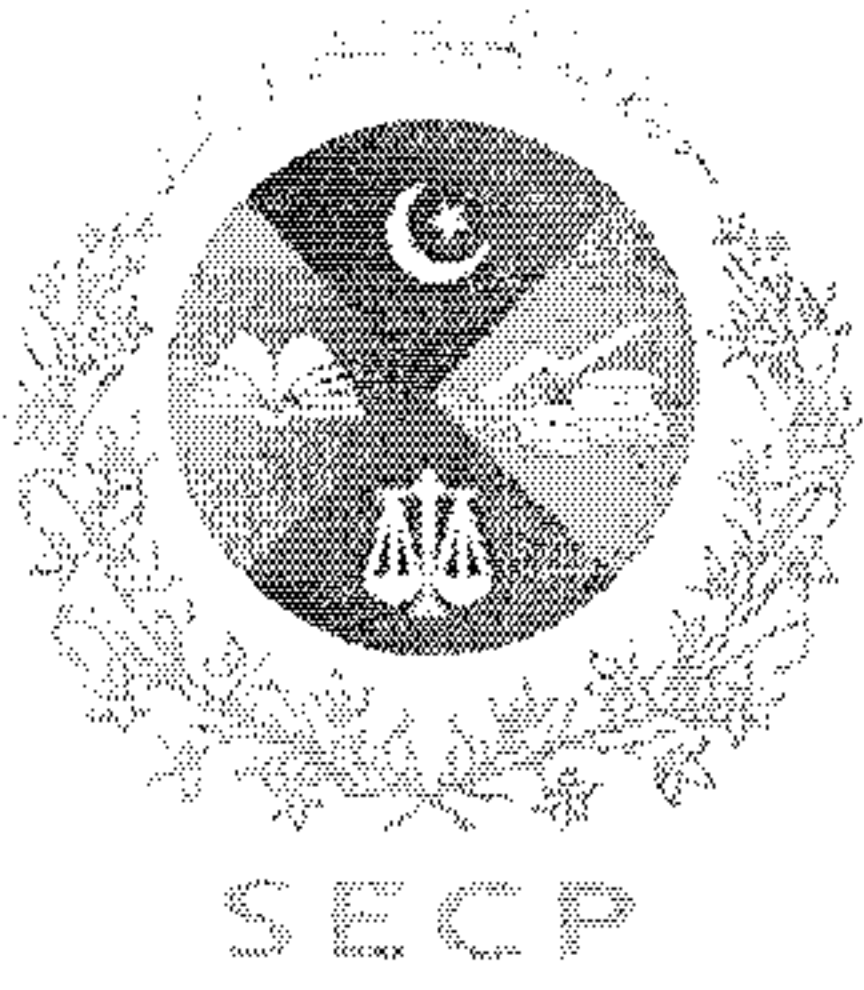
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Insurance Corporation of Pakistan ("SLIC") at the rate of Rs. 285 in Off Market. Subsequently, within a minute, the Client sold 50,000 shares of INDU at Rs. 300 through Respondent in the Ready Market. The Client earned quick profit of Rs. 750,000 by executing the above-mentioned transactions. The share price of INDU was ranged between Rs. 290 to Rs. 302.63 on that day. It is pertinent to mention here that the Client bought shares at Rs. 285 from SLIC at 13:00:30 in Off Market and at the same time share price of INDU was Rs. 299.99 in the Ready Market. The aforementioned transactions raised ambiguity regarding the fairness on the part of the Respondent.

3. The Commission vide letter dated September 12, 2012 sought clarification from the Respondent regarding above-mentioned transactions and rational behind the execution of transactions which resulted in significant gain to the Client. Further, the Respondent was advised to submit complete documentation exchanged with the Client and SLIC for execution of the afore-mentioned transactions in the scrip of INDU. The copy of same letter was also sent to the Chairman, SLIC. The Respondent vide letter dated September 17, 2012 requested for extension of 15 days in submission of its reply. The Commission vide letter dated September 19, 2012 advised the Respondent to submit its reply by September 25, 2012.

4. The Respondent vide letter dated September 14, 2012 received in the Commission on September 25, 2012 submitted its reply. The Respondent informed that the orders of INDU were executed on behalf the Client who negotiated the deal directly with the SLIC at the best possible rate of Rs. 285. The Respondent in its reply also stated that on the particular date the INDU was also traded on Rs. 290, hence, no such large discrepancy felt especially when the negotiation have been on going. However, the Respondent failed to give any tenable rational behind the execution of above-mentioned transactions and did not submit requisite documentation exchanged with the Client and SLIC for execution of transactions. The Divisional Head of Investment of SLIC vide letter dated September 13, 2012 originally addressed to the Respondent and copy to the Commission also sought clarification from the Respondent regarding these transactions.



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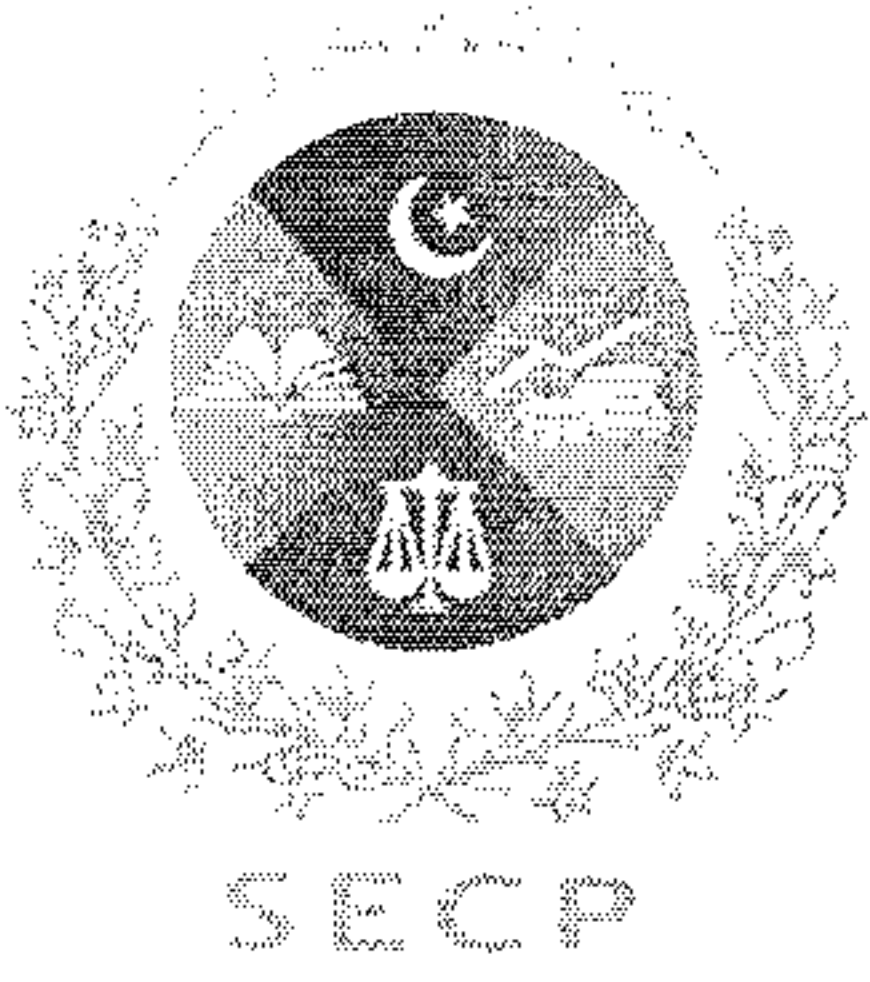
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5. The response of the Respondent was not considered satisfactory as it did not contain sufficient evidence and justification regarding the execution of trades of its Client in the scrip of INDU. Consequently, SCN dated October 25, 2012 was issued to the Respondent under Section 22 of the Ordinance and the Brokers Rules stating that the Respondent has prima facie contravened Clause A (1), A (2), A(5) and B(6) of the Code of Conduct set forth under the third schedule of the Brokers Rules. The Respondent through SCN was asked to explain its position through written reply within ten 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 November 12, 2012 for hearing. However, on the request of the Respondent, the venue of the hearing was shifted from Islamabad to Karachi.

6. The Respondent vide letter dated November 05, 2012 submitted its response to the SCN. The important contentions raised in the response are reproduced hereunder:-

"At the outset we would like to inform you that the company has complied all the provision of the Act and Brokers Rules and has maintained highest degree of integrity. We would like to inform you that:

- i) The transaction under discussions was an independent transaction between DM and SLIC and the company has only executed transaction through its terminal. Therefore, there is no question principal and agent in the transaction.*
- ii) DM has initiated the transaction on its own with SLIC.*
- iii) SLIC is maintaining a large portfolio of shares and capable of safeguard its own interest without intervention of others. In the said transaction SLIC is a knowledgeable willing seller and DM is knowledgeable willing buyer.*
- iv) SLIC is a corporate organization and decision to deal in the shares has to be taken by the competent committee. Therefore, there is difference between actual decision by the organization and reporting on Stock Exchange terminal.*



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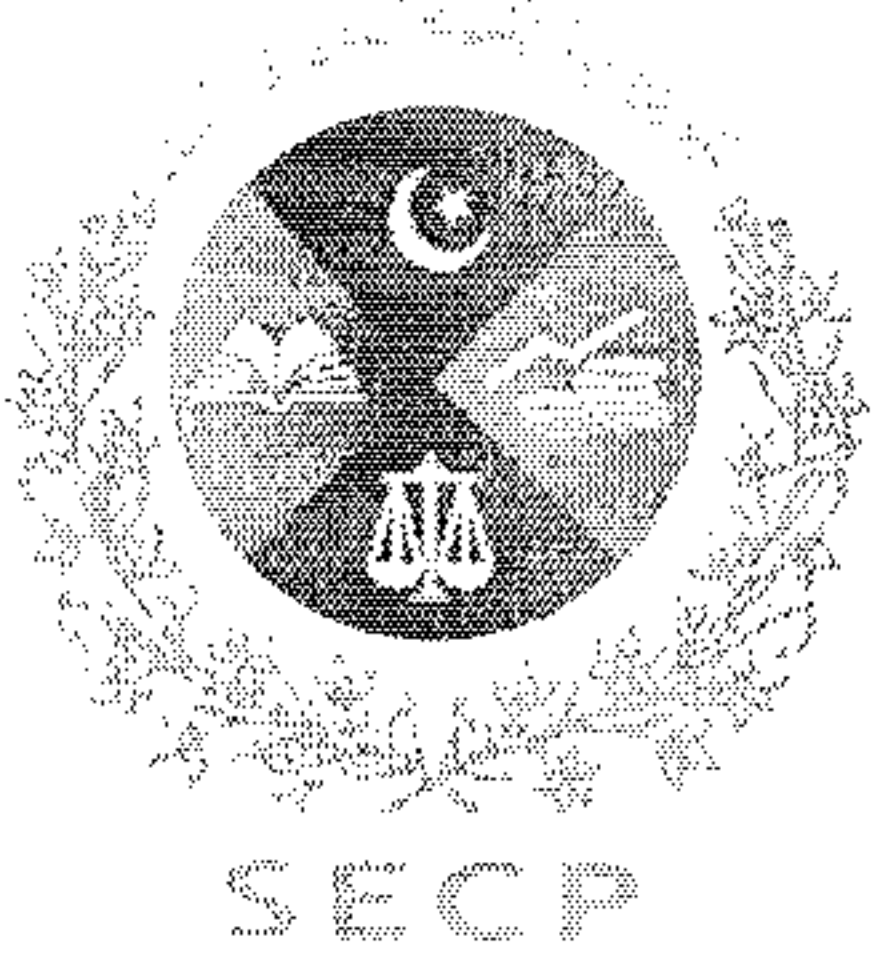
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- v) *We have been informed by Mr. DM that there was ongoing negotiation with SLIC and deal was made at the best possible rates i.e. Rs 285 per share.*

"Without prejudice to the above we refer to the decision reported on 20 March 2012 wherein honorable member in the case JS Global has exonerated the company from the act of the employee. As the act of Mr. DM is independent and does not bind the company as principal or agent, therefore, keeping in view the said decision the company could not be held responsible for the act of Mr. DM. We therefore request your honor to kindly drop the proceeding initiated by on the basis of facts of the case and decision reported".

7. The hearing in the matter was held on November 12, 2012 at the Commission's Karachi Office. Mr. Hamad Kehar, Managing Director ("MD") and Mr. Naveed Alam ("Partner") appeared on behalf of the Respondent. They made the following submissions during the course of hearing:

- i) The MD contended that shares of INDU were bought by one of its client namely Dulhano Mal in Off Market and SLIC sold these shares. He stated that INDU is a illiquid scrip and shares were purchased by the Client in his individual capacity and Respondent has nothing to do with the deal between SLIC and the Client as the Respondent only executed the transactions on their behalf. The MD was inquired how one individual can execute deal with SLIC in his independent capacity. The MD replied that the Client informed the Respondent that his negotiations were going on with SLIC for purchase of INDU shares before the transaction but at agreed rate these transactions were executed on September 04, 2012.
- ii) The MD was also asked regarding the occupation of the Client and his relationship with any employee or management of the Respondent. The MD replied that the Client is agriculturalist and he has no relationship with any of the employees or management of the Respondent. The MD

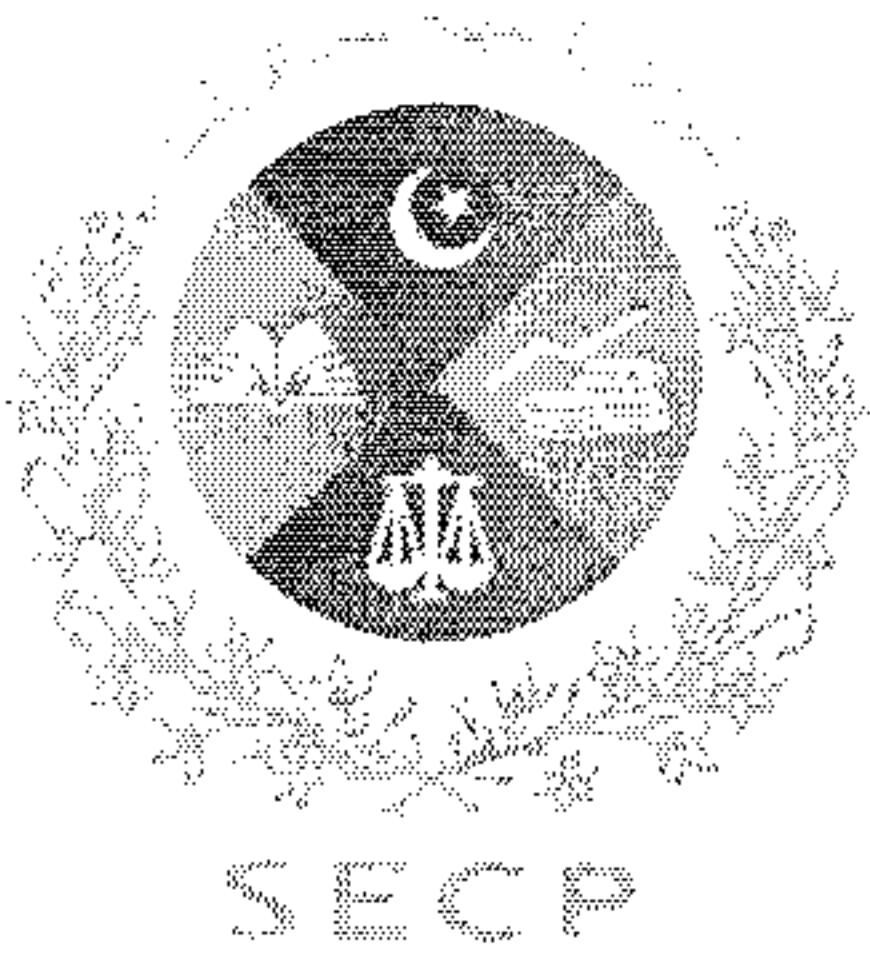


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was appraised that SLIC vide letter dated September 13, 2012 also showed it's concerned on the above-mentioned transactions. The MD emphasized that being a corporate Broker Respondent is maintaining a large portfolio of its different clients and in the particular case the Client confirmed the Respondent in writing regarding the purchase of shares from SLIC. The MD argued that SLIC is corporate authority and decision to deal in shares has to be taken by its competent committee.

- iii) The MD was inquired regarding the mode of placing orders by the Client and SLIC and the rational behind the transactions in question which resulted in significant gain to the Client. The MD informed that SLIC used to place order through phone whereas the Client used to place orders in presence at the brokerage house. Regarding the rational of transactions the MD reiterated his stance that this was mutually agreed transactions between its two clients at negotiated price and transactions were executed by the Respondent on the client's instructions.
- iv) The MD was asked about another transaction executed on September 04, 2012 at the same time wherein SLIC sold 50,000 shares of INDU through Respondent in Off Market to Jamna Devi Reena Kumari, a client of JS Global Capital. The MD informed that Jamna Devi Reena Kumari has also trading account with the Respondent and on the instruction of SLIC 50,000 shares were sold in Off Market to JS Global Capital Limited but the Respondent had no idea of the counter party client name.
- v) The MD prayed that the Commission may drop the proceeding initiated against the Respondent and withdraw the SCN on the basis of facts of the case.



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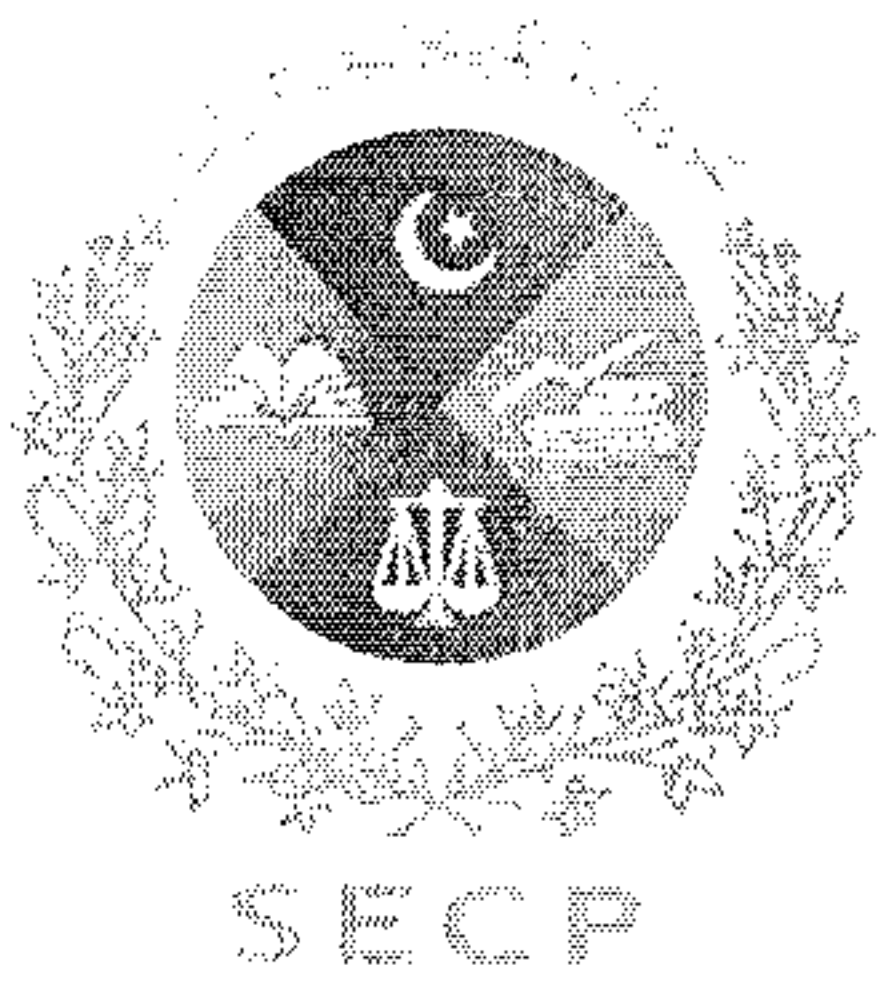
8. During the course of hearing, the MD was requested to provide the copy of account opening form of SLIC, ledger of the Client and copies of receipts and payments by the Client. The same were provided by the Respondent vide letter dated November 14, 2012.

9. Subsequent to the hearing, the SLIC vide letter dated November 20, 2012 was inquired that the representative of the Respondent during the course of hearing informed the Commission that the transaction in the scrip of INDU was result of private deal between the Client with SLIC and the Respondent has nothing to do with it. Further, SLIC was requested to provide its comments, documentation / copy of agreement with the Client and SLIC for selling of INDU shares to the Client through the Respondent. In this regard, the reply was received from the SLIC vide letter dated November 22, 2012.

10. I have heard the arguments submitted by the MD at length during the hearing. Additionally, I have perused the record and the written reply filed by the Respondent as well as SLIC. Accordingly, my findings on the arguments and assertions made by the Respondent to the issues raised in the SCN are as follows:

i) The contention made by Respondent in its written reply to the SCN and MD at the time of hearing that the Client executed the transactions in his individual capacity and the Respondent was not aware of any deal between the Client and SLIC is not true. As mentioned earlier that same matter was taken up with SLIC and SLIC vide its letter dated November 22, 2012 informed the Commission that the sale contract of shares of INDU was executed between the Respondent and SLIC. The transactions in the scrip of INDU were negotiated deal with the Respondent and were executed by accepting the bid of the Respondent for purchase of 100,000 shares of INDU at Rs. 285. The SLIC further informed that the Respondent has been delisted from the panel of approved Brokers by SLIC. The SLIC enclosed the offer letter and acceptance letter dated September 04, 2012 of the Respondent signed by its Head of operations for purchase of 100,000 shares of INDU at Rs. 285.

ii) At the time of hearing, MD argued that Respondent was not aware of the counter party name who bought 50,000 shares of INDU through JS Global



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Capital Limited in Off Market. After analysis of account opening forms of the Client and Jamna Devi Reena Kumari, it was revealed that Dewan Kumar is a son of the Client and Jamna Devi Reena Kumari, is a wife of his son and all these persons have trading account with the Respondent. From above, it is evident that the Client and Jamna Devi Reena Kumari are related to each other.

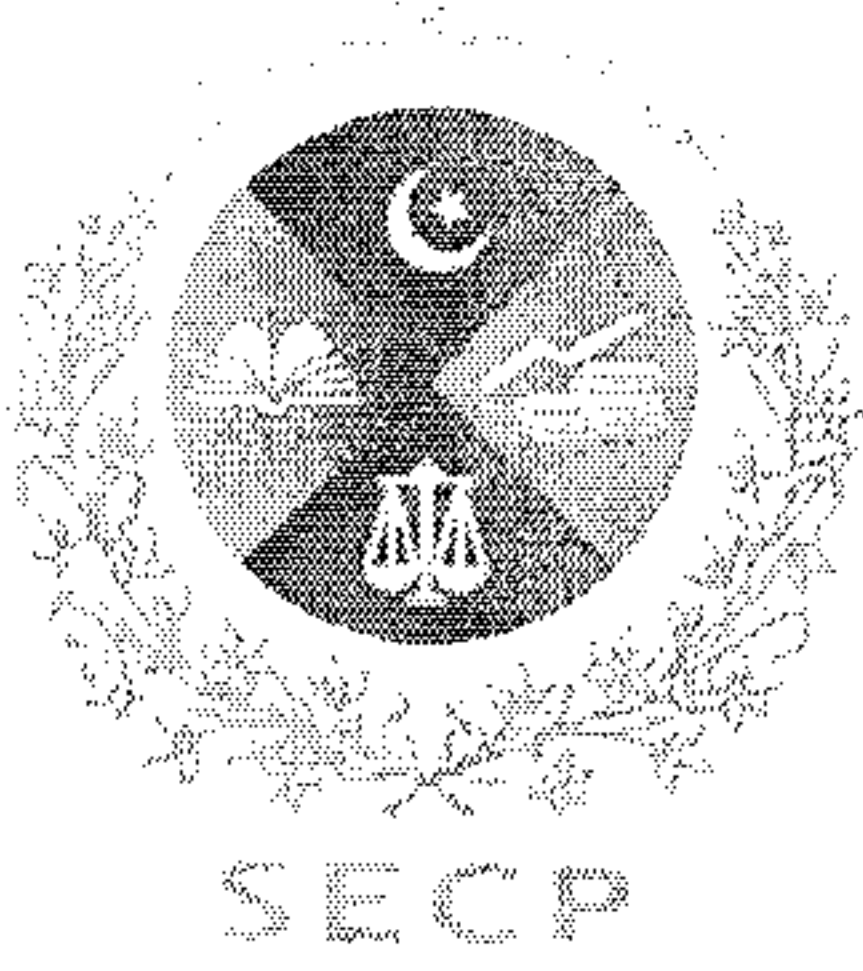
11. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the MD during the course of the hearing, it is evident that it was a coordinated scheme on the part of the Respondent wherein the transactions were executed by the Respondent through its clients. In the first leg of these transactions, the Client bought 50,000 shares of INDU at Rs. 285 SLIC through Respondent whereas in the second leg the 50,000 shares of INDU were bought by Jamna Devi Reena Kumari at Rs. 285 through JS Global Capital Limited and same were sold by SLIC through Respondent. After few seconds the Client and Jamna Devi Reena Kumari sold their respective 50,000 shares of INDU in Ready Market at Rs. 300. The details of buying and selling by the clients in the scrip of INDU are given in Table - 1 and Table - 2 below:-

Table - 1

Trade Time	Name	'Member Name'	Seller Name	'Counter_Mem _Name'	B_S	Qty	TradePrice (Rs.)
1300306406	Dulhano Mal	Axis Global Ltd	SLIC	Axis Global Ltd	B	50,000	285
1300148437	Jamna Devi Reena Kumari	JS Global Capital Ltd.	SLIC	Axis Global Ltd	B	50,000	285
						100,000	

Table - 2

Trade Time	Name	'Member Name'	B_S	Qty	Trade Price (Rs.)
1300510016	Dulhano Mal	Axis Global Limited	S	11,300	300
1300510020	Dulhano Mal	Axis Global Limited	S	25,000	300
1300580019	Dulhano Mal	Axis Global Limited	S	13,700	300
1300510015	Jamna Devi Reena Kumari	JS Global Capital Ltd.	S	50,000	300
				100,000	



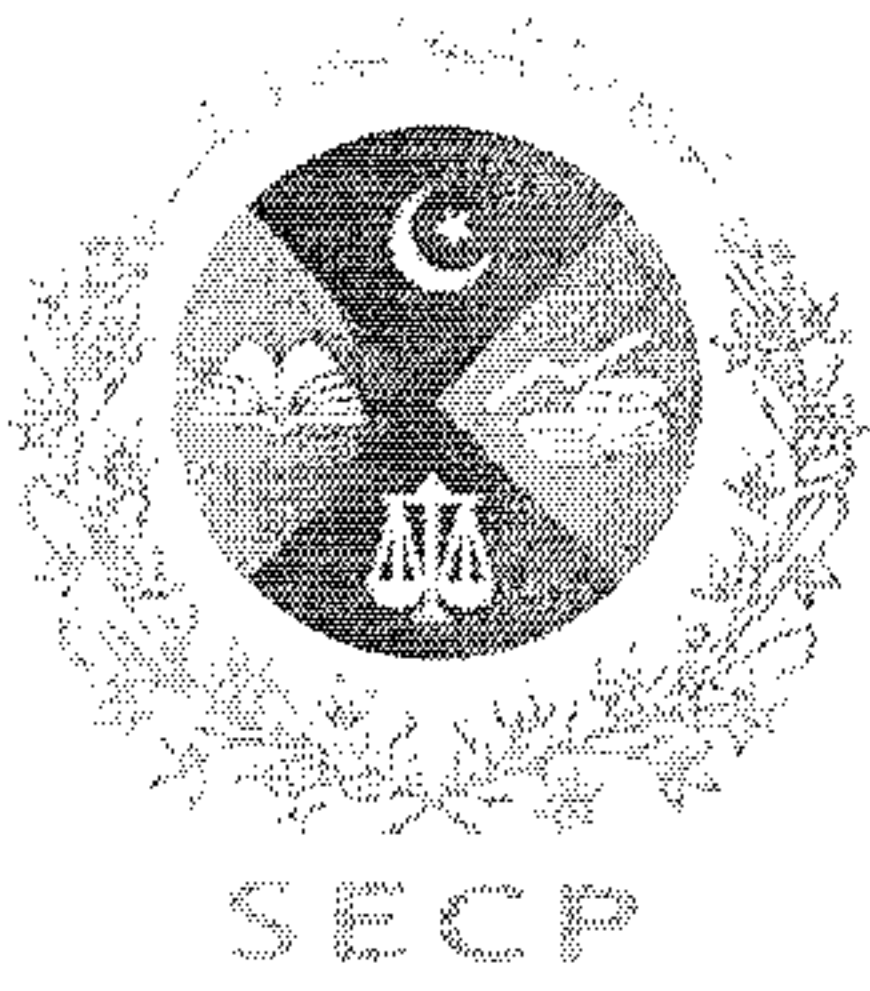
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12. The concealment of the facts and contradicting statements given by the Respondent strongly support our contention that this scheme was set up by the Respondent in coordination with its clients. The Respondent purchased 100,000 shares of INDU from SLIC at lower rates and then executed the transactions through two brokerage houses in the accounts of two different clients who were from the same family. The clients sold the shares at higher rates immediately and in the process, a hefty gain of Rs. 1,500,000 was made. SLIC incurred heavy loss due to these transactions which was eventually the loss suffered by small policy holders of SLIC. It was the prime responsibility of the Respondent to execute the transactions of SLIC at best available rate in a transparent and faithful manner. However in the instant case the Respondent failed to safeguard the interest of its client, SLIC.

13. The Commission has taken a very serious note of such conduct of the Respondent. I am of the considered view that the Broker must act honestly and not to engage in conduct that would bring the brokerage business into disrepute. Moreover, the Broker must comply with the standards of profession and never compromise those standards for its personal interest. I believe that 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. If any market participant does not act accordingly then it should be held accountable for that. Moreover, it is duty of the Broker to not furnish any false statement, document, paper accounts, information or explanation to the Commission which he knows or has reasonable cause to believe to be false or incorrect in any material particular. The practice adopted by the Respondent brought disrepute into the profession and detrimental for the interest of market participants and small investors.

14. From the above, it is established that Respondent failed to maintain high standards of integrity, and fairness in the conduct of its business. The Respondent has indulged in improper, dishonorable and undesirable conduct. The Respondent must have treated its client with fairness and honesty. The execution of abovementioned trades shows that the Respondent has failed to act with due skill, care and diligence in the conduct of its business. It is very disappointed to note that the Respondent made incongruent statements and submitted wrong and misleading information to the Commission with malafide intentions. The Respondent has failed to abide by the provisions of the Rules & Regulations issued by the Commission and KSE



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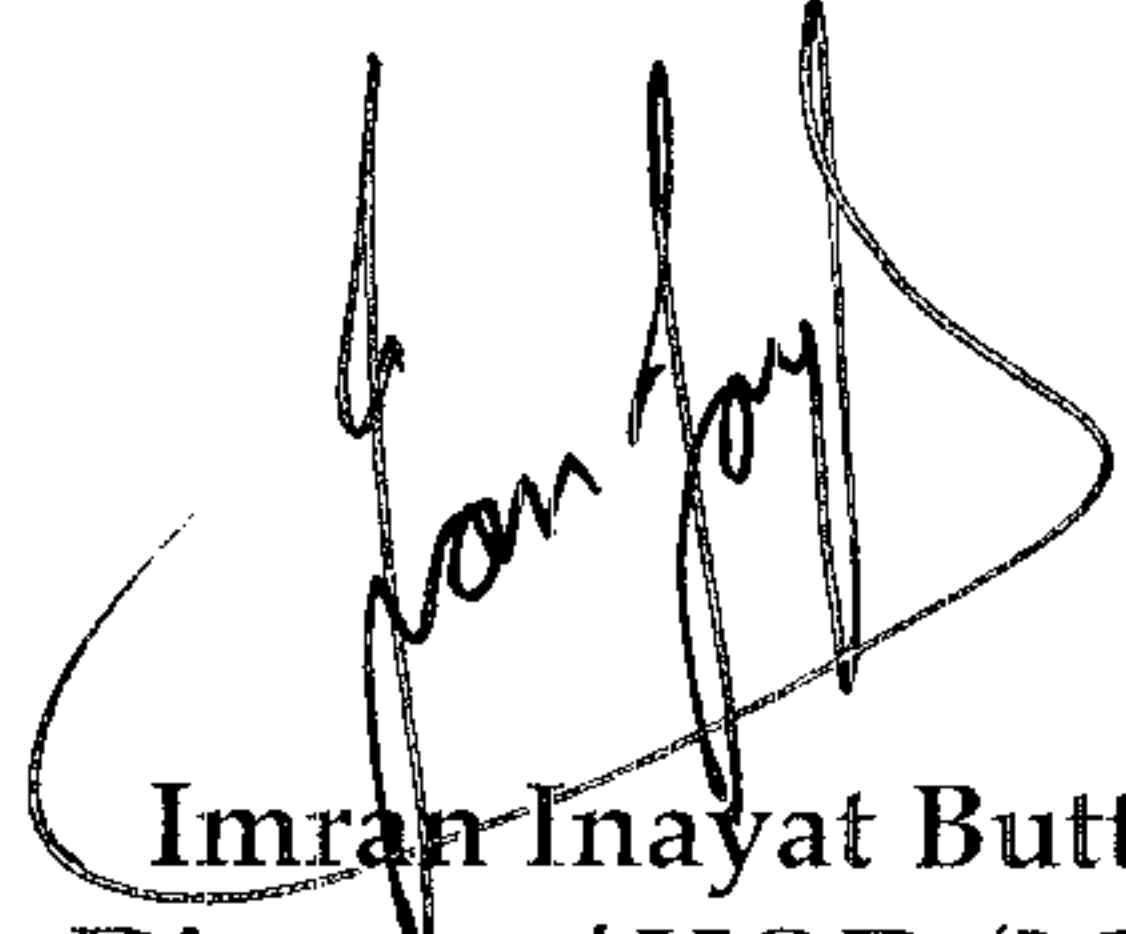
from time to time, thus violated the Clause A (1), A (2), A (5) and B (6) of the Code of Conduct set forth under the third schedule of the Brokers Rules and which in turn is a violation of Rule 12 of the Brokers Rules read with Rule 8 of the Brokers Rules.

15. The violation of the Rules and Regulations is a serious matter which entitles the Commission to even suspend the Respondent's registration 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. 1,000,000 (Rupees One Million Only). I 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.

16. 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 undersign.

17. 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 December 07, 2012.
Islamabad.