



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

DJM Securities (Pvt.) Limited, Broker Karachi Stock Exchange Limited

Date of Hearing:

November 12, 2012

Present at the Hearing:

Representing DJM Securities (Pvt.) Limited

Mr. Yaqoob Jan Muhammad

Director

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) 2004/1607 dated September 24, 2012 ("SCN") issued to DJM Securities (Pvt.) Limited, Trading Right Entitlement Certificate Holder/Broker ("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 trading data of KSE from August 27, 2012 to September 04, 2012 ("Period"), it was noted that the Respondent in its Proprietary Account traded 87,200 shares wherein it bought and sold 43,600 shares of Philip Morris (Pakistan) Limited ("PMPK") during the Period. The analysis of trading data revealed that Respondent executed 32 trades in its Proprietary Account out of which 25 trades matched

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with Zillion Capital Securities (Pvt.) Limited ("ZCS") Trading Right Entitlement Certificate Holder/Broker of KSE.

3. The trading in Proprietary Account by the Respondent consisted of 60% of the total market volume in the scrip of PMPK during four days of the Period. The analysis of order level data showed that buy and sell orders by the Respondent and ZCS placed at the same time and in such a manner to ensure that these match with each other. During the Period, volatility in the share price was witnessed, which ranged between Rs. 138.50 to Rs. 157.95. The details of transactions by the Respondent that matched with ZCS are given below in Table -1:-

Table : 1

TRADE_DATE	TRADE_TIME	QTY	TRADE_PRICE	Buy / Sell	COUNTER_PARTY_NAME
2012-08-27	1013560013	7,000	139	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-27	1014120002	7,000	150	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-27	1037390008	2,500	139	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-27	1037540002	2,500	139	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-27	1038050007	2,000	139	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-27	1047140002	2,000	150	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-27	1047290005	2,000	150	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-27	1047470020	3,000	150	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-31	0917000008	7,300	142	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-31	0917190018	2,000	155	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-31	0917230027	2,000	155	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-31	0917260017	3,300	155	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-31	0917420009	3,000	143	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-31	0917490024	2,000	143	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-08-31	0918020039	2,300	143	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-03	0953310021	3,000	148	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-03	0953410029	1,500	148	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-03	0953550029	2,500	148	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-03	0954020038	500	148	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-03	1231110008	2,500	152	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-03	1235320002	2,500	153	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-03	1235550002	2,500	153	B	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-04	0941340038	2,500	153	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-04	0941440002	2,500	153	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
2012-09-04	0941560020	2,500	153	S	ZILLION CAPITAL SECURITIES (PRIVATE) Ltd.
		72,400			



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4. The Commission vide its letter dated September 12, 2012 sought clarification from the Respondent regarding the synchronized and coordinated scheme of trading which created false market and volatility in the scrip. In response, the Respondent vide its letter dated September 17, 2012 informed that Chief Executive Officer of the Respondent was not in Pakistan when trades in question were executed. The Respondent further stated that strict action has been taken against the KATS operator who was involved in the execution of undesirable trades and assured that these kind of false transactions will never repeat again.

5. The response of the Respondent was not considered satisfactory as it did not contain sufficient evidence and justification regarding the execution of trades in the scrip of PMPK. Consequently, SCN dated September 24, 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), A (4) and A (5) 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 October 12, 2012 for hearing. However, on the request of the Respondent, the venue of the hearing was changed from Islamabad to Karachi.

6. The Respondent did not submit written reply in response to the SCN. The hearing in the matter was held on November 12, 2012 at the Commission's Karachi Office and Mr. Yaqoob Jan Muhammad Director ("Director") appeared on behalf of the Respondent. He made the following submissions during the course of hearing:

- i) The Director contended that the trades in question were executed by its new KATS operator. The Director stated that during the Period he was abroad, due to which he was unable to check these trades. The Director showed his Passport as evidence of foreign visit during the Period.
- ii) The Director admitted its fault and reiterated its stance that the Respondent was not directly involved in the transactions in question and these transactions were not executed with any malafide intentions



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or manipulate the share price. The Director was inquired about the profit of Rs. 400,000 earned by the Respondent from the trading of PMPK during the Period. He asserted that Respondent investigated the matter internally wherein it was revealed that Respondent's KATS operator and ZCS KATS operator were friends and they mutually executed these transactions for exchange of some material benefit. He informed that ZCS suffered loss of Rs. 400,000 but no complaint was lodged against the Respondent by ZCS. The Director further informed that KATS operator was fired by the Respondent.

- iii) The Director 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 executed by its KATS operator and Respondent was not aware of these transactions.

7. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the CEO during the course of the hearing, it is established that the Respondent created a false market and failed to maintain fairness in the conduct of its business. It was the responsibility of the Respondent to monitor all trading activities being carried out through its trading terminals in order to track and prevent any transaction being made in violation of any applicable rules and regulations. The assertion of the Respondent that trading in the scrip of PMPK was executed by its KATS operator and over looked by the Respondent because the Director was abroad may not hold true. It is pertinent to mention here, that the Proprietary Account of a broker is very exclusive account which is used for its own trading, but in this particular case, the same was operated by an inexperience and new KATS operator. Further, the trades in question were executed in the Proprietary Account of the Respondent for four working days and the Respondent did not take any notice of the same. The aforementioned clearly shows the weaknesses in the Respondent's internal controls and procedures and its relaxed and casual attitude regarding the compliance and conformity towards the applicable rules and regulation.



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8. The trading activity by the Respondent created volatility and false market in the scrip. In this regard the comparison of average daily trading volume of the Period with previous and subsequent two months in the scrip of PMPK is given in Table 2 below:-

Table -2

Time Period	Average Daily Traded Volume (Shares)
Before Two Months of the Period (June 27, 2012 to August 26, 2012)	6,897
During the Period (August 27, 2012 to September 04, 2012)	24,742
After Two Months of the Period (September 05, 2012 to November 05)	3,908

The above mentioned table shows that average daily traded volume during the Period was much higher in comparison with the traded volume of earlier two months and subsequent two months of the Period.

9. The analysis of trading data of the Respondent in the scrip of PMPK showed that out of 87,200 shares traded by the Respondent during the Period 72,400 shares matched with ZCS which consisted of 83% of total volume traded by the Respondent. It is pertinent to mention here that the Respondent in coordination with ZCS traded in the scrip in such a manner that share price moved upward or downward swiftly in very short span of time. Moreover, Respondent and ZCS traded in such a way that their positions were squared at the day end and beneficial ownership of shares was not changed. We believe that there was some specific purpose and reason for such trading by both Respondent and ZCS and the same was admitted by the Respondent.

10. From the above, it is evident that by executing the above mentioned transactions the Respondent created a false and misleading appearance of active trading in the scrip of PMPK and executed the transactions which involved no change in its beneficial ownership. Due to the coordinated transactions in the scrip of PMPK, the Respondent gave appearance of active



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trading which is detrimental for interest of the investors who traded in the scrip during the Period.

11. The Respondent has indulged in improper and undesirable conduct on the stock exchange. The execution of abovementioned trades shows that the Respondent has failed to maintain high standards of integrity, promptitude and fairness in conduct of its business. The Commission has taken a very serious note of such conduct of the Respondent. 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 KSE from time to time, thus violated the Clause A (2), A (4) and A (5) of the Code of Conduct set forth under the third schedule of the Brokers Rules which in turn is a violation of Rule 12 of the Brokers Rules read with Rule 8 of the Brokers Rules.

12. I am of the considered view that unfair trade practices are detrimental for the growth and development of the market and undermine market integrity. 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. The above-mentioned trading activities 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 scrip of PMPK.

13. 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. 200,000 (Rupees Two Hundred Thousand Only). 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.

14. 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




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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.

15. 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 5, 2012
Islamabad.