



Securities and Exchange Commission of Pakistan

Securities Market Division
Market Supervision & Capital Issues Department

Before The Director/HoD (MSCID)

in the matter of Show Cause Notice issued to

Highlink Capital (Pvt.) Limited, Broker Lahore Stock Exchange

Date of Hearing:

November 08, 2012

Present at Hearing:

Representing the Highlink Capital (Pvt.) Limited

(i) *Mr. Khuram Shahzad*

Company Secretary

Assisting the Director/HoD (MSCID)

(i) *Mr. Osman Syed*

Deputy Director, SECP

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice (the "SCN") bearing No. 1 (03)/Wash/KSE/MSW/SMD/2009/96 dated 24/10/2012 issued to Highlink Capital (Pvt.) Limited (the "Respondent") by the Securities and Exchange Commission of Pakistan (the "Commission"), under Section 22 of the Securities and Exchange Ordinance, 1969 (the "Ordinance") and the Brokers and Agents Registration Rules, 2001 (the "Brokers Rules"). The Respondent is a Trading Right Entitlement Certificate Holder of the Lahore Stock Exchange Limited ("LSE") and registered with the Commission as Broker under the Brokers Rules.
2. The brief facts leading up to this order are that after examination of the trading data of Karachi Automated Trading System ("KATS") of KSE from July 01, 2012 to September 30, 2012, it was noted that the Respondent bought and sold shares in such a way that orders for buy and sell matched with each other and did not result in any change in ownership of the shares. Thus, the transactions fall within the meaning and ambit of the term 'Wash Trades'. A summary of the said transactions is noted in chronology, as follows:
 - (i) In the month of July 2012, the Respondent bought and sold 246,686 shares at KSE, as a result of these trades the Respondent executed 39 Wash Trades in 14 different scrips through its proprietary accounts.



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- (ii) In the month of August 2012, the Respondent bought and sold 580,000 shares at KSE, as a result of these trades the Respondent executed 78 Wash Trades in 19 different scrips through its proprietary accounts.
- (iii) In the month of September 2012, the Respondent bought and sold 457,800 shares at KSE, as a result of these trades the Respondent executed 94 Wash Trades in 35 different scrips through its proprietary accounts.

3. As mentioned earlier these transactions fall within the scope and meaning of Wash Trades, therefore, the Commission vide its letters no. 1(01)/Wash/KSE/MSW/SMD/2009/83 dated September 24, 2012 requested the Respondent to provide the comments and documentary evidences to clarify its position regarding the execution of Wash Trades in its proprietary account. In this regard, the Respondent through its letter dated October 04, 2012 made the submissions which are reproduced as under:

"At our brokerage house, for proprietary trading, different traders operate through different allocated trading terminals and they try to take benefit out of any price fluctuation that arises in the market. In such cases trader's performance is subject to encashing any possibility of making profit and the transactions executed by these traders are distinguished by the trading terminals through which they operate. Sometimes, it may happens that due to paucity of time and turnover taking place on that particular time, some trades executed through different terminals of the house may match with each other by chance and it is merely a coincidence and happens without having any intention of affecting the price and creating an impression of active trading. The trades cited by you are simply the result of coincidence and it was mere a chance.

The very fact is evident from the trades in a particular scrip, cited by you, are of insignificant percentage of our own house trading in that scrip while our house account trading is inconsequential percentage of the total trades / turnover in the market itself in that particular trade. For example, on 31 Jul, 2012, AHCL compared to total turnover in the market amounts to 0.0010%.

From the above, it is evident that quantities involved are too small and insufficient to manipulate the price and the market."



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4. The aforementioned reply of the Respondent was examined by this office and was not considered satisfactory as same did not contain any evidence or reasonable justification for execution of Wash Trades in its proprietary accounts. Accordingly, the SCN dated October 24, 2012 was issued to the Respondent under Section 22 of the Ordinance and the Brokers Rules stating that Respondent has prima facie contravened Code of Conduct specified under Rule 12 of the Broker Rules and made part thereof as third Schedule. The Respondent through the SCN was asked to explain its position through written reply within ten days of issuance of the SCN and appear on November 08, 2012 for a hearing. In reply to SCN, the Respondent through its letter dated November 01, 2012 made the identical submissions as provided in its earlier reply dated October 04, 2012.
5. On the hearing date, Mr. Khuram Shahzad, (“**Authorized Representative**”), appeared on behalf of the Respondent. The Authorized Representative reiterated the submissions made in the written reply to the SCN. However, when he was apprised of the fact that there was no justification under the law for the execution of wash trades, he conceded that the default was made in complying with the provisions of Section 22 of the Ordinance. The Authorized Representative prayed that the Commission may take a lenient view in the matter and in future Respondent will ensure the compliance of all rules and regulations framed by the Commission.
6. I have heard the arguments of the Authorized Representative during the hearing. Additionally I have perused the record, the written reply filed by the Respondent. In view of the facts and my findings and observations thereon, it is established that the Respondent has placed the buy and sell orders at the same Exchange in such a way that orders for buy and sell matched with each other and did not result in any change in beneficial ownership of the shares, which created false and misleading impression in the market and is a violation of the regulatory framework. I am of the considered view that unfair trade practices like Wash Trades are harmful for the development of the market and damage market integrity. The execution of abovementioned trades shows that the Respondent has failed to maintain high standard of integrity and has been unsuccessful in exercising due care, skill and diligence in conduct of its business. Consequently, it is established that the Respondent has contravened the provisions of the Code of Conduct.
7. The violation of the Rules and Regulations is a serious matter which can even lead to suspension or cancellation of the Respondent’s registration as a broker by the Commission.




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However, keeping in view the fact that this type of non compliance on part of the Respondent has been observed for first time, I am taking a lenient view in the matter and I hereby impose on the Respondent a penalty of Rs. 100,000/- (Rupees Hundred Thousand only). Additionally, I strongly advise the Respondent to take immediate measures and put in place proper checks to eliminate the occurrence of such instances in future. I also 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 serious punitive action under the law.

8. 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.
9. The 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 on December 7, 2012
Islamabad.