



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

Zillion Capital Securities (Pvt.) Limited, Broker Karachi Stock Exchange Limited

Date of Hearing:

November 12, 2012

Present at the Hearing:

Representing Zillion Capital Securities (Pvt.) Limited

Mr. Imtiaz Ibrahim

Chief Executive Office

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) 2004/1608 dated September 24, 2012 ("SCN") issued to Zillion Capital Securities (Pvt.) Limited, Trading Right Entitlement Certificate Holder/Broker ("the Respondent") 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 trading data of KSE from August 27, 2012 to September 04, 2012 ("Period"), it was noted that the Respondent in its Proprietary Account traded 98,800 shares wherein it bought and sold 49,400 shares of Philip Morris (Pakistan) Limited ("PMPK") during the Period. The analysis of trading data revealed that Respondent executed 46 trades in its Proprietary Account out of which 25 trades matched with D.J.M Securities (Pvt.) Limited ("DJM"), Trading Right Entitlement Certificate Holder/Broker of KSE.

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3. The trading in Proprietary Account by the Respondent consisted of 68% of the total market volume in the scrip of PMPK during the four days of the Period. The analysis of order level data showed that buy and sell orders by the Respondent and DJM were 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 DJM 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	S	DJM SECURITIES (PVT.) LIMITED
2012-08-27	1014120002	7,000	150	B	DJM SECURITIES (PVT.) LIMITED
2012-08-27	1037390008	2,500	139	S	DJM SECURITIES (PVT.) LIMITED
2012-08-27	1037540002	2,500	139	S	DJM SECURITIES (PVT.) LIMITED
2012-08-27	1038050007	2,000	139	S	DJM SECURITIES (PVT.) LIMITED
2012-08-27	1047140002	2,000	150	B	DJM SECURITIES (PVT.) LIMITED
2012-08-27	1047290005	2,000	150	B	DJM SECURITIES (PVT.) LIMITED
2012-08-27	1047470020	3,000	150	B	DJM SECURITIES (PVT.) LIMITED
2012-08-31	0917000008	7,300	142	S	DJM SECURITIES (PVT.) LIMITED
2012-08-31	0917190018	2,000	155	B	DJM SECURITIES (PVT.) LIMITED
2012-08-31	0917230027	2,000	155	B	DJM SECURITIES (PVT.) LIMITED
2012-08-31	0917260017	3,300	155	B	DJM SECURITIES (PVT.) LIMITED
2012-08-31	0917420009	3,000	143	S	DJM SECURITIES (PVT.) LIMITED
2012-08-31	0917490024	2,000	143	S	DJM SECURITIES (PVT.) LIMITED
2012-08-31	0918020039	2,300	143	S	DJM SECURITIES (PVT.) LIMITED
2012-09-03	0953310021	3,000	148	S	DJM SECURITIES (PVT.) LIMITED
2012-09-03	0953410029	1,500	148	S	DJM SECURITIES (PVT.) LIMITED
2012-09-03	0953550029	2,500	148	S	DJM SECURITIES (PVT.) LIMITED
2012-09-03	0954020038	500	148	S	DJM SECURITIES (PVT.) LIMITED
2012-09-03	1231110008	2,500	152	S	DJM SECURITIES (PVT.) LIMITED
2012-09-03	1235320002	2,500	153	S	DJM SECURITIES (PVT.) LIMITED
2012-09-03	1235550002	2,500	153	S	DJM SECURITIES (PVT.) LIMITED
2012-09-04	0941340038	2,500	153	B	DJM SECURITIES (PVT.) LIMITED
2012-09-04	0941440002	2,500	153	B	DJM SECURITIES (PVT.) LIMITED
2012-09-04	0941560020	2,500	153	B	DJM SECURITIES (PVT.) LIMITED
		72,400			

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 one of its KATS operator who used to trade in the Proprietary Account



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was involved in the execution of undesirable trades and same were executed due to operational lapses and negligence and were not part of any coordinated scheme of trading. The Respondent stated that KATS operator executed the trades without any financial objectives and without knowing about the ultimate consequences of such trades. The KATS operator did not report the same to the back office or higher officials and the matter came to the knowledge of the Respondent through Commission's letter. The Respondent informed that the stern action against the responsible KATS operator has been taken and other staff members have also warned to ensure strict compliance of all regulations in future. The Respondent requested to take lenient view on the aforesaid matter and ensured that it will be more vigilant while trading and will place stringent checks in its back office to control the execution of such undesirable trades in future.

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 vide letter dated October 03, 2012 submitted its response to the SCN. The important contentions raised in the response are reproduced hereunder:-

"We would like to draw your kind attention towards the transactions which were carried out from our brokerage house in our Proprietary Account in the scrip of Philip Morris (Pakistan) Limited (PMPK) during the period from August 27, 2012 to September 4, 2012. We want to bring in your knowledge that this is an undisclosed Market where the identity of the buyer and seller are not disclosed, and in accordance with your notice there are many transactions that match with other member's transactions".



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"Further, PMPK is very volatile scrip, the movement of price was very volatile during the period from July 02, 2012 to September 28, 2012 due to the market volatility which is as per Rules & Regulation of Karachi Stock Exchange Limited. It normally happens. A stock's price fluctuates; price moves volatility just not in this particular scrip but also others.

"As per your notice these trades were coordinated scheme or were in intention mode, further we would like to inform you that we just bought and sold shares according to the KSE Rules and Regulations. We neither pushed the scrip to lock nor affected the market and not a single client or any investor was affected; in fact we suffered loss of Rs. 399,006. During said period at some stages we bought just 300 to 1000 shares, it clearly shows that we really had no intension to create false market and volatility in the scrip and we did not violate the Rules & regulations of KSE during trading."

"Please note that by stating this we never meant that we have any sort of willingness or intention to violate any Rules and Regulation framed by the KSE. We assure you that we are trading accordance with the Rules and Regulations. Therefore, you are requested to dismiss the case and these transactions should not be classified as false market creator."

7. The hearing in the matter was held on November 12, 2012 at the Commission's Karachi Office and Mr. Imtiaz Ibrahim, Chief Executive Officer ("CEO") appeared on behalf of the Respondent. He made the following submissions during the course of hearing:

- i) The CEO contended that the Respondent has a clean track record of eighteen years in the capital market. The above-mentioned transactions were not conducted with malafide intentions and no material benefit was gained through these transactions.
- ii) The CEO explained that these transactions were executed due to the mistake of the of the Respondent's KATS operator who was recently employed. The KATS operator had the authority to trade in the Proprietary Account in different scrips. He stated that it



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was not the malpractice or any coordinated scheme for the manipulation of share price as the trading at KSE is undisclosed and mistake was made by the KATS operator unintentionally and without any material gain.

- iii) The CEO argued that the nature of scrip of PMPK is very volatile and share price fluctuates in both directions frequently on daily basis, however, the Respondent traded small quantity in the scrip of PMPK during the Period. He asserted that the matter was overlooked because Respondent traded heavily in its Proprietary Account and due to the operational lapses in the internal system, the matter came to his knowledge through Commission's letter. He informed that the Respondent suffered a loss of Rs. 400,000 in this particular case.
- iv) The CEO emphasized that trading of the Respondent in the scrip did not exactly match with the DJM and most of the trades were executed with other market participants. The CEO reiterated that he has a clean record in the past and now it will adopt cautious approach in future and ensure that nothing wrong will happen again. The CEO 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 merely result of ignorance and unawareness, without having any fraudulent intentions.

8. 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 overlooked because Respondent used to



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trade heavily in its Proprietary Account 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 inexperienced and new KATS operator. Further, the trades in question were executed in the Proprietary Account of the Respondent for four working days and the CEO 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.

9. The argument by the Respondent that small quantity of shares were traded by it during the Period and trades in question were not synchronized with DJM and most of the trades matched with other participant is not true. 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.

10. The analysis of trading data of the Respondent in the scrip of PMPK showed that out of 98,800 shares traded by the Respondent during the Period 72,400 shares matched with DJM which consisted of 73% of total volume traded by the Respondent. It is pertinent to mention here that the Respondent in coordination with DJM traded in the scrip in such a manner that share price moved upward or downward swiftly in very short span of time. Moreover, Respondent



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and DJM 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 DJM. The same matter was also taken up with DJM and proceedings were initiated against it. During the hearing the representative of DJM admitted its fault and stated that this was a coordinated scheme by its KATS operator and Respondent's KATS operator, therefore, DJM terminated the services of its KATS operator.

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

12. 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.

13. 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.

14. 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



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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.

15. 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.

16. 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 on December 5, 2012
Islamabad.