



Through Courier

Before The Director / HOD (MSCI)

In the matter of Show Cause Notice issued to

First National Equities Limited, Broker Karachi Stock Exchange Limited

*Dates of Hearing:*

- (i) August 16, 2012
- (ii) August 30, 2012
- (iii) September 5, 2012
- (iv) September 25, 2012
- (v) October 15, 2012
- (vi) October 22, 2012

*Present at the Hearing:*

*Representing First National Equities Limited:*

Hearings were rescheduled on the Respondents' request and no one appeared on the date of final hearing before the undersigned

*Assisting the Director/HOD (MSCI)*

(i) Ms. Najia Ubaid

Deputy Director

**ORDER**

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1 MISC/MSW/SMD/1(5) 2004/1580 dated July 31, 2012 ("SCN") issued to First National Equities Limited ("Respondent"), TRE Certificate holder / broker of the 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") read with 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 under the Brokers Rules. On perusal of the trading data of the KSE for the period January 1,



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2012 to July 15, 2012 ("Review Period"), it was observed that out of the total trading volume of 15.85 million shares in the scrip of the First National Equities Limited ("FNEL") approximately 82% was traded by the associates of the Respondent, and resulted in increase in share price from Rs. 2.72 on January 01, 2012 to Rs. 8.50 by April 11, 2012 which was almost 212.5%.

3. Further perusal of the historical data of the KSE revealed that the traded volume of the scrip of the FNEL during the Review Period was the highest since January 2009. Comparative trading volumes for the period started from January 2009 till July 15, 2012 is tabulated below:

**Table - I**

<i>Sr. No</i>	<i>Period</i>	<i>Total Volume (Shares)</i>	<i>Average Monthly Volume (Shares)</i>
1.	January 2009 to December 2009	4,120,471	343,373
2.	January 2010 to December 2010	246,636	20,553
3.	January 2011 to December 2011	7,860,477	655,039
4.	January 1, 2012 to April 30, 2012	4,393,536	1,098,384
5.	May 1, 2012 to June 10, 2012	2,437,679	1,832,841
6.	June 11, 2012 to July 15, 2012	9,026,951	7,781,854

The above table categorizes the Review Period into three segments:

January 1, 2012 to April 30, 2012 ("RP - 1")

May 1, 2012 to June 10, 2012 ("RP - 2")

June 11, 2012 to July 15, 2012 ("RP - 3")

4. The analysis of the trading record during RP - 3 depicted that First Florance Developers (Private) Limited ("FFD") sold 7.91 million shares of FNEL at an average rate of Rs. 6.11 per share through the Respondent, which approximates 87.6% of the total trading volume in the scrip of the FNEL during the RP - 3. As per company record of FFD, Mr. Ali Aslam Malik and his wife Ms. Adeela Ali are the only directors of the said company. Moreover, both of them owned 100% shares of FFD. Upon further examination of the



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record, it was noted that all the trades executed by FFD through the Respondent matched with NAMCO Balance Fund ("NAMCO") during RP - 3.

5. The trading record of the KSE depicted that during RP - 1, clients of the Respondent traded in a manner that resulted in price hike in the scrip of the FNEL to almost 212.5% as referred above. During RP - 2, NAMCO bought 1.780 million shares at an average rate of Rs. 6.82 per share. Further analysis revealed that NAMCO during the Review Period bought 11.08 million shares of the scrip of FNEL and out of that NAMCO bought 8.325 million shares of the FNEL during RP - 3 at an average rate of Rs. 6.11 per share.

6. Detailed analysis of the trading record revealed that during RP - 1 NAMCO bought 0.976 million shares of the scrip of FNEL at an average rate of Rs. 7.17 per share, which includes buying of 461,600 shares from Mr. Tariq Aleem, a client of Respondent. During RP - 2, NAMCO bought 1.377 million shares of the scrip of the FNEL from Mr. Tariq Aleem at an average rate of Rs. 6.83 per share. During RP - 3 NAMCO bought 7.910 million shares at an average rate of Rs. 6.13 per share from FFD, which constitutes 87.6% of the traded volume in the scrip of FNEL during RP - 3. The analysis of the Review Period is summarized below in the tabular form:

**Table 2**

Period	Total Market Volume (Shares in Million)	Sold by FFD		Bought By NAMCO		NAMCO Matched Volume as %age of NAMCO's Trading	
		Shares (Million)	%age of Total Market Volume	Shares (Million)	%age of Total Market Volume	With FFD	With Tariq Aleem
RP - 1	4.393			0.976	23%		47%
RP - 2	2.437			1.78	73%		77%
RP - 3	9.026	7.91	87.6%	8.32	92%	95%	
Review Period	15.856			11.08	70%	71.4%	17%

7. The company registration record maintained by the Commission provides that Mr. Ali Aslam Malik is also the Chief Executive Officer ("CEO") of the Respondent; CEO of FFD and Chairman of the First National Equities Group ("FNE Group"). The record further



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reveals that National Asset Management Company Limited is an associate company of the FNE Group and is registered with the Commission as a Non Banking Finance Company under the non Banking Finance Companies Rules, 2003. NAMCO is the balance fund managed by the National Asset Management Company Limited.

8. From the above, it appeared that the Respondent was involved in creation of artificial volume in the scrip of the FNEL and execution of the scheme in concert with the above referred participants. Therefore, the Commission served a SCN dated July 31, 2012 and required the Respondent to submit its written reply within seven days of the date of SCN. The Respondent was further required to appear before the undersigned on August 16, 2012.

9. However, the Respondent vide letter dated August 6, 2012 communicated its inability to attend the hearing, stating that it has to engage a legal consultant for the purpose. The Respondent further requested that extension of 15 days be granted for submission of written reply and date of hearing may be fixed thereafter. The Commission acceding to the request of the Respondent and allowed the extension. The Respondent was required to submit its written reply by August 28, 2012 and appear for hearing before the undersigned on August 30, 2012.

10. On August 29, 2012, the Commission received fax copy of the Respondents' letter dated August 29, 2012 again requesting for extension of three weeks time, stating that Mr. Ali Aslam Malik is out of country due to his personal emergency. The Commission, once again considering the request granted extension in the date for second time and required the Respondent to appear before the undersigned on September 5, 2012.

11. The Respondent vide letter dated September 3, 2012 communicated that Mr. Ali Aslam Malik is out of country and shall be back by September 15, 2012 and requested that extension for written reply be granted till September 22, 2012 and date of hearing be fixed thereafter. The Commission granted extension to the Respondent for third time upon its



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request and required the Respondent to appear before the undersigned on September 25, 2012.

12. On September 24, 2012, the Commission received a letter from Minto & Mirza - Advocates & Solicitors ("**Representative**"), communicating that they have been appointed to represent the Respondent by Mr. Ali Aslam Malik. The Representative of the Respondent requested for further extension of thirty days to prepare reply to the SCN and also requested for scheduling the hearing date in the matter. The Commission again for the fourth time granted extension to the Representative of the Respondent vide letter September 24, 2012 and required it to submit written reply by October 11, 2012 and appear before the undersigned on October 15, 2012. The Commission also communicated the Representative of the Respondent that in case of failure to appear for its defense the matter shall be decided ex-parte. The copy of this Commission's letter dated September 24, 2012 was also marked to the Respondent.

13. The Representative of the Respondent submitted its written response to the SCN vide letter dated October 10, 2012. However, on October 12, 2012 the Representative of the Respondent communicated about its busy schedule before the Honourable Sind High Court during the entire next week and requested for extension till third week of November 2012. In view of the Commission, the request for time extension till third week of November 2012 was not tenable, however, considering the busy schedule of the Representative of the Respondent, granted extension for the fifth time and communicated Representative of the Respondent vide letter dated October 15, 2012 to appear before the undersigned on October 22, 2012. However, no one appeared on October 22, 2012 and no communication in this context was received till date.

14. The Representative of the Respondent in the written response submitted vide letter October 10, 2012 denied the contents of the SCN. The contents of the para wise reply to the SCN submitted vide letter dated October 10, 2012 by the Representative of the Respondent are reproduced below:



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- a) *"The stock market generally witnessed huge recovery during the Review period and several shares appreciated accordingly. Appreciation in stock activity and share price of the Respondent was also due to the said recovery in the stock market."*
- b) *"Further after the financial crisis in 2008 the stock market generally remained depressed until the beginning of 2012. The trading activity in shares of the Respondent also remained affected by the said depression."*
- c) *"It is wrong to allege that there was any direct selling of shares to NAMCO Balance Fund ('NAMCO') by First Florence Developers (Pvt.) Limited ('First Florence'). All trades were market trades and it is coincidental that shares purchased by NAMVO were sold by First Florence etc."*

*NAMCO is completely independently functioning fund and FNEL has no role in its decision making of whatsoever nature..... The allegations made in the Notice are totally misconceived and are therefore denied."*

- d) *"There is no existence of an FNE Group as alleged. NAMCO is completely independently functioning fund and FNEL has no role in its decision making of whatsoever nature."*
- e) *"First Florence subscribed to shares of the Respondent as right shares and sold these afterwards in the open market.....The entire argument of shifting loss is misconceived and therefore denied."*

15. The written response of the Representative of the Respondent was analyzed in detail. The findings of the Commission on the basis of the available record are stated below:

- a) With reference to the appreciation in the volume and price of the scrip of FNEL because of stock market appreciation, it is important to note that the stock market during the period of August 2012 till October 31, 2012 depicted a positive sentiment and increase in the price and volumes of various listed scrips was witnessed, but the scrip of the FNEL did not receive the affect of the market



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sentiment. The price of the scrip of FNEL ranged between Rs. 3.16 to Rs. 5.99 per share during the period of August 2012 till October 31, 2012. Analysis of the trading record after the date of SCN till date depicted the total trading volume of 301,000 shares during a period of almost three months. The month wise breakup of the volume is tabulated below:

**Table - 3**

<i>Sr. No</i>	<i>Month</i>	<i>Volume</i>
1.	August 2012	11,500
2.	September 2012	208,000
3.	October 2012	81,500

The data tabulated depicts that trading volume in the scrip of the FNEL declined drastically during the three months period, in comparison to Review Period of more than six months of the year 2012.

- b) With reference to the response of the Representative of the Respondent on comparison of trading volume during the Review Period and periods earlier to that, the record revealed that approximately 88% of the traded volume in the scrip of the FNEL during the Review Period was either by the FFD (wholly owned by the CEO of the Respondent), NAMCO (a fund managed by the associate of the FNE Group) and few clients of the Respondent. Moreover, the trading record also indicates that no trading in the scrip of the FNEL has been conducted by the FFD since June 2008 and NAMCO bought only 2.8 million shares of the FNEL since January 2008 i.e. a period of almost 5 years. The above analysis of the data lead the Commission to believe that the Respondent was involved in creation of the artificial volume in the scrip and execution of the designed scheme.
- c) Regarding the Representative's response mentioning the trades between the FFD, NAMCO and Mr. Tariq Aleem being coincidental, the order level data was



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analyzed in detail. The analysis of the order level data of NAMCO and FFD revealed that NAMCO placed the orders in such a manner that all the orders of the FFD were instantly executed as were placed. From the above, it appears that the trades executed at the KSE were not coincidental and were planned to ensure that the sale orders placed by the FFD in the scrip of FNEL are executed. Further evaluation of the record revealed that the difference of time in most of the cases in the placement of sale orders by FFD and the buy order placed by NAMCO was only few seconds. This pattern of order placement resulted in matching of the FFD's sale orders with NAMCO's buy order which lead the Commission to believe that the placement of orders were prearranged. As per trading record of KSE, total shares of FNEL sold by FFD during the Review Period were bought by NAMCO. With reference to the remaining quantity of the scrip of FNEL bought by NAMCO, it was observed that the majority of the buy orders matched with the sale orders placed by few clients of the Respondent including Mr. Tariq Aleem. It is pertinent to note that 64% of the trading of Mr. Tariq Aleem during the Review Period matched with NAMCO.

- d) Regarding the independence of NAMCO, it is pertinent to mention that Mr. Ali Aslam Malik is the Chairman of FNE Group and National Asset Management Company Limited is an associate company of the FNE Group and as mentioned above, Mr. Ali Aslam Malik is the CEO of the Respondent and FFD. Moreover, the website of the NAMCO Asset Management Company also specifies itself to be the associate company of the FNE Group.
- e) With reference to the right issue in the scrip of the FNEL, the record revealed that a right issue was announced in the month of April 2011 at the discounted rate of Rs. 2.50 per share. Considering the argument submitted by the Representative of the Respondent, it is evident that FFD booked a profit of almost Rs. 3.6 per share and transferred the burden of the same to the general investors, by selling these shares to NAMCO. Here it is very important to note





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that NAMCO is a fund where a number of small investors have invested their hard earned money. From the above trading activity it appears that money of the investors was misused by NAMCO in a manner that allowed FFD to book profit and avoid loss. Form the above it is very evident that the CEO of the Respondent and his wife, the only shareholders of FFD, were the beneficiary of this scheme.

16. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representative of the Respondent in its response dated October 10, 2012, it is established that the Respondent was involved in the creation and execution of the scheme in concert with FFD, NAMCO and its clients, with a view to distort the market and for personal gains. As provided in the Code of Conduct set forth under the third schedule of the Brokers Rules, it is the responsibility of the Respondent not to create false market either singly or in concert with others or indulge in any act that is detrimental to the investors' interest. Further generation of artificial volume interfered with the fair and smooth functioning of the market and created misleading impression for the investors.

17. 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 (1), (2), (4) and (5) of the Code of Conduct set forth under the third schedule of the Brokers Rules, which in turn is violation of Rule 12 of the Brokers Rules read with Rule 8 of the Brokers Rules.

18. It is highly disappointed to note that the Respondent has shown very casual attitude towards the Commission and despite number of extensions on its own request, did not even felt the need to inform about its non availability/absence on the date of final hearing. It is pertinent to mention here that in the interest of justice the hearing dates were rescheduled time and again on the request of the Respondent. On October 22, 2012 it was the sixth time the hearing date was set, again on the request of the Respondent. The Commission has taken a very serious note of the laidback and non serious attitude of the Respondent towards the Commission.



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19. 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 and to reduce the systematic risk of the market. If any market participant does not act accordingly then it should be held accountable for that. The violation of the Rules and Regulations is a serious matter which entitles the Commission to 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. 500,000 (Rupees Five Hundred Thousand only).

20. 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.

21. 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 November 6, 2012  
Islamabad.

