



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

April 13, 2012

**The President/Chief Executive Officer,**  
Faysal Bank Limited,  
Faysal House, ST-02,  
Shahrah-e-Faisal,  
Karachi.

**SUBJECT: PROHIBITORY ORDER UNDER SECTION 20 OF THE SECURITIES AND EXCHANGE ORDINANCE, 1969**

1. **WHEREAS** it is observed from the examination of the trading data of Karachi Stock Exchange (“KSE”) that Faysal Bank Limited (“FABL”) traded extensively in relatively illiquid/thinly traded scrips (“Scrips”) before the end of the financial reporting periods ending June 30, 2011 and December 31, 2011. It was further observed that trading activity by FABL contributed significantly to movement in prices of the Scrips and the KSE – 100 index. The scrip wise price movement during June review period (i.e. June 1, 2011 to June 30, 2011) and December review period (i.e. December 19, 2011 to December 31, 2011) along with comparison of the price after a months’ time of FABL’s trading activity is tabulated in Table I and Table II below:

Table I

Sr.	Scrip	Price 01-Jun-11	Price 30-Jun-11	Change %	Price 29-Jul-11	Change %
1	Bata Pakistan Limited	506.13	614.02	21.31%	657.82	7%
2	Hino Pakistan Limited	86.44	115.43	33.53%	111.27	(4)%
3	Habib Metropolitan Bank	17.78	21.77	22.44%	18.85	(13)%
4	Indus Dying & Manufacturing	317.27	381.47	20.23%	340.46	(10.75)%
5	Nestle Pakistan Limited	3,389.81	5,475.09	61.51%	4,201.58	(23.26)%
6	Siemens Engineering	993.19	1,084.21	9.16%	1,036.08	(4.44)%
7	Service Industries Limited	175.07	196.10	12.01%	192.11	(2)%
8	Wyeth Pakistan Limited	816	987	20.96%	987	(0)%

Table II

Sr.	Scrip	Price on 19-Dec-11	Price 30-Dec-11	Change %	Price 31-Jan-12	Change %
1	Nestle Pakistan Limited	2,228.27	3,597.11	61.14%	3,177.74	(11.66)%
2	International Industries	26.53	38.01	43.27%	31.25	(17.78)%



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision and Capital Issues Department)

Continuation Sheet - 1 -

Sr.	Script	Price on 19-Dec-11	Price 30-Dec-11	Change %	Price 31-Jan-12	Change %
3	Dawood Hercules Corp	29.70	42.39	42.72%	37.70	(11.06)%
4	Siemens Engineering Pakistan	743.33	1,056.75	42.16%	865.00	(18.14)%
5	Wyeth Pakistan Limited	653.12	819.95	25.54%	711.01	(13.28)%
6	Ferozson Laboratories	71.08	81.99	15.35%	73.16	(10.77)%
7	Al-Ghazi Tractors Limited	169.73	192.84	13.62%	175.04	(9.23)%
8	Fazal Textile Mills Limited	234.86	246.60	4.99%	243.35	(1.32)%

2. **WHEREAS**, the Commission vide letter dated February 10, 2012 required FABL to explain the reason of investment in the Scrips during the review periods. FABL, in its response dated March 12, 2012 communicated that investment in the Scrips was made on the basis of research reports issued by Equity Capital Market Department of FABL.
3. **WHEREAS**, examination of FABL's reply in reference to the June review period transpires that:
- the research report for the scrip of Bata Pakistan Limited was issued on June 10, 2011 and FABL on the same date bought 10,000 shares (80.67% of the scrip's total volume during June review period);
  - the research report for the scrip of Hino Pakistan Limited was issued on June 10, 2011 and FABL bought 6,623 shares (64.59% of the scrip's total volume during June review period) during last four days of the June review period;
  - the research report for the scrip of Habib Metropolitan Bank Limited was issued on June 10, 2011; FABL bought 55,570 shares on June 3, 2011 (7 days earlier to the issuance of research report), and 6.085 million shares during June 21 to June 30, 2011; FABL's trading activity constituted 75.31% of the scrip's total volume during June review period;
  - the research report of Indus Dying and Manufacturing Company Limited was issued on June 27, 2011 which recommended "buy" and FABL, in contrary, on June 28, 2011 sold 47,069 shares (75.91% of the scrip's total volume during June review period);
  - the research report for the scrip of Nestle Pakistan Limited ("**Nestle**") was issued on May 25, 2011 and FABL sold 202 shares during May 2011; and bought 4,685 shares and sold





SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision and Capital Issues Department)

Continuation Sheet - 2 -

8,055 shares during June 1 to June 30, 2011, in contrary to the research report recommendation; the price appreciation in Nestle on June 28, 2011 contributed 40 points in the KSE – 100 Index;

- vi). the research report of Siemens Engineering Pakistan Limited was issued on May 25, 2011 and FABL sold 141 shares during May 2011 (in contrast to the research report recommendation of “buy”); FABL bought 10,492 shares (84.44% of the scrip’s total volume) during last ten days of the June review period;
- vii). the research report of Services Industries Limited was issued on May 27, 2011; FABL bought 218,077 shares (55.17% of the scrip’s total volume during review period) during June 22 to June 30, 2011;
- viii). the research report of Wyeth Pakistan Limited (“**Wyeth**”) was issued on April 15, 2011; FABL on June 21, 2011 bought 489 shares (88.86% of the scrip’s total volume during June review period).

4. **WHEREAS**, examination of FABL’s reply in reference to December review period transpires that:

- i). the research report for the scrip of Dawood Hercules Corp was issued on December 19, 2011, however, FABL bought 3.314 million shares (44.9% of the scrip’s total volume during December review period), 68.53 % of which were purchased during last two days of December review period;
- ii). the research report for the scrip of Ferozson Laboratories was issued on December 19, 2011, however, FABL bought 4,940 shares (51% of the scrip’s total volume during December review period) and out of which 2,500 shares were bought on December 29, 2011;
- iii). the research report for the scrip of Fazal Textile Mills Limited was issued on November 21, 2011, however, FABL bought 130 shares on December 30, 2011, constituting 100% of the scrip’s total volume in the December review period;
- iv). the FABL communicated that it invested in the scrip of International Industries Limited on the basis of research report dated November 28, 2011, however, the research report



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision and Capital Issues Department)

Continuation Sheet - 3 -

was issued on May 27, 2011; FABL's trading volume was 691,312 shares (73.6% of the total volume during December review period) and out of these 500,498 shares were purchased during last three days of December review period;

- v). the research report for the scrip of Nestle was issued on May 25, 2011; FABL's trading volume was 3,452 shares (58.45% of the scrip's total volume during December review period) and out of which 2,839 shares were traded during last two days of December review period;
- vi). the research report for the scrip of Wyeth was issued on April 15, 2011, however, during July 1, 2011 to September 30, 2011 a total of 18,843 shares were traded, out of which FABL bought 15,724 shares during last four days of September 2011 (quarter end for financial reporting) resulting in price raise from Rs. 845 to Rs. 860.80;

5. **WHEREAS**, FABL during earlier proceedings in the matter of Show Cause Notice No. MISC/MSW/SM/1(5) 2004 dated December 22, 2011 (as detailed in Commission's order dated January 31, 2012), claimed that transactions in the scrip of Nestle during June review period were executed following strategy of the bank to shift/divest the portfolio inherited by National Investment Trust Limited in compliance of Prudential Regulation of State Bank of Pakistan. However, FABL in its response stated that it invested in Nestle on the basis of research report dated May 25, 2011. The conflicting stance in the explanation pertaining to the same trade of Nestle by FABL, *prima facie* appears to be a misstatement. Further, it appears from examination of the trading patterns that trades were executed much later than the date of the research reports, which leads to a presumption that the trades were not based on the research reports as argued by FABL.
6. **WHEREAS**, trading in high valued thinly traded scrips particularly before the end of financial closing periods, resulted in huge change in Scrips' prices. FABL's trading activity in the Scrips constituted majority of the total trading volume during review periods, which gave rise to the fact that increase in the Scrips' prices was mainly because of FABL's trading activity. Further market record reveals that prices of the Scrips immediately fell after the review periods, during which no trading activity in the patterns detailed above was observed from FABL. Increase in price after the review periods is tabulated above.



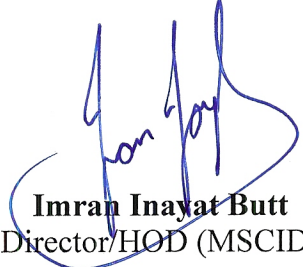


SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
(Market Supervision and Capital Issues Department)

Continuation Sheet - 4 -

7. **AND WHEREAS**, being active stock market participant, FABL should be conscious of sensitivity of the transactions and its impact on market dynamics. It was noted that FABL in its financial statements classified the investments as Available for Sale, which are reported at market value. Resulting increase in the price of the Scrips, because of FABL's trading activity, considerably over inflated the amount to be reported on its financials and allowed FABL to portray better financial position, which in essence is not the true picture of the investments held by it and is a compromise on the principle that Financial Statements of the organization should reflect true and fair view of its financial position. It is also pertinent to note that trading in the patterns as detailed above increased portfolio size of FABL's investments, which ultimately may have resulted in increased compensation to the fund managers of FABL, without any genuine increase in value of the investments, at the cost of its shareholders.
8. **IN VIEW THEREFORE**, in exercise of power under Section 20 of the Securities and Exchange Ordinance, 1969 ("**Ordinance**"), FABL is prohibited from:
- i). entering into trading transactions in such patterns and manner that results/constitutes to result inflated value of investments' portfolio, and portrays/ constitutes to portray its better financial position (which in true sense is not the case/scenario), especially close to its financial reporting periods;
  - ii). indulging in trading activities as referred above, which may result in significant increase in prices of the scrips and constitute or is calculated to constitute a contravention of any provision of the Ordinance and rules and regulations made thereunder.
9. This Prohibitory Order is issued without prejudice to any other action that the Commission may initiate in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.



  
**Imran Inayat Butt**  
Director/HOD (MSCID)