



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
(Securities Market Division)

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Before The Director (Securities Market Division)

In the matter of Show Cause Notice issued to

Rafi Securities (Pvt.) Limited

Date of Hearing:

December 09, 2009

Present at the Hearing:

Representing the Rafi Securities (Pvt.) Limited

▪ Mr. Naeem Rafi

Chief Executive Officer

Assisting the Director (SMD)

▪ Mr. Muhammad Ali

Deputy Director

**ORDER**

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(07) BS/KSE/MSW/SMD/2009/62 dated November 19, 2009 ("the SCN") issued to Rafi Securities (Pvt.) Limited ("the Respondent"), Member of the Karachi Stock Exchange (Guarantee) Limited ("KSE") by the Securities and Exchange Commission of Pakistan ("the Commission") under Section 22 of the Securities and Exchange Ordinance, 1969 ("the Ordinance") and Rule 8 of the Brokers and Agents Registration Rules, 2001, ("the Brokers Rules").
2. The brief facts of the case are that the Respondent is a member of KSE and is registered with the Commission under the Brokers Rules. On perusal of the trading data of Karachi Automated Trading System ("KATS") of KSE for the month of July 2009, it was noted that the clients of the Respondent namely Ms. Sultana Ashiq ("SA") bearing code "888" and Mr. Muhammad Omer Iqbal ("MOI") bearing code "934" had been engaged in first selling and then squaring up their positions in different scrips. During the month SA first sold and then squared up her position in the scrips of Fauji Fertilizer Bin Qasim Limited ("FFBL") to the tune of 39,000 shares and Worldcall Telecom Limited ("WTL") to the tune of 44,500



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shares on the same day. Whereas, MOI first sold and then squared up his position in the scrip of Azgard Nine Limited ("ANL") to the tune of 86,000 shares on the same day.

3. On further perusal of the trading data of the KSE for the month of August 2009, it was also noted that the clients of the Respondent namely SA and Mr. Ameer Nawab Khan ("ANK") bearing code "935" had been engaged in selling and then squaring up their position in different scrips. During the month SA first sold and then squared up her position in the scrips of Hub Power Company Limited ("HUBC") to the tune of 22,687 shares, Pakistan Telecommunication Company Limited ("PTC") to the tune of 50,000 shares, Southern Electric Power Company Limited ("SEPCO") to the tune of 20,000 and TRG Pakistan Limited ("TRG") to the tune of 121,495 shares on the same day. Whereas, ANK first sold and then squared up his position in the scrip of TRG to the tune of 25,000 shares on the same day .
4. The Commission vide its letters dated August 31, 2009, October 02, 2009 and October 16, 2009 sought clarification regarding the Blank Sales executed by the Respondent on behalf of its clients during the month of July 2009. The Respondent in its replies vide letters dated September 04, 2009, October 05, 2009, October 15, 2009 and October 19, 2009, provided two undertakings of different persons wherein, as per mutual understanding, they agreed to deliver the shares to SA and MOI as loan against payment. These undertakings were used by the Respondent as a proof of pre-existing interest against their positions mentioned above.
5. The Commission vide its letter dated October 06, 2009 sought clarification from the Respondent regarding the Blank Sales executed during the month of August on behalf of its clients. The Respondent in its replies vide letters dated October 12, 2009 and October 19, 2009, again provided undertakings of different persons in support of the pre-existing interest against the over sold shares of SA and ANK. The Respondent provided five different undertakings wherein different persons agreed to deliver shares as loan against payment to SA and ANK as per their mutual understanding.
6. The above mentioned replies of the Respondent were not considered satisfactory and it clearly showed that the Respondent had executed the said trades without having pre-existing interest. Consequently, SCN 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) and A (5) of the Code of Conduct set forth under the third schedule of the Brokers Rules. The Respondent was required to appear in person or through an authorized



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representative before the undersigned at Commission's Islamabad Office on December 07, 2009, for a hearing. However, the date of hearing was changed on the Respondent's request. Subsequently, the hearing was held on December 09, 2009, which was attended by Mr. Naeem Rafi, Chief Executive Officer ("CEO") of the Respondent.

7. The Respondent vide its various written replies and the CEO during the course of hearing made the following submissions:-

- (a) The Respondent in its reply denied the allegation of blank sales levied through SCN. The Respondent stated that it had not made any blank sale and all the shares were sold according to the Rules & Regulation. The Respondent stated that respective clients had provided undertaking of loan as a pre-existing interest against the shares sold. However, the Respondent accepted its mistake to the extent that its KATS Operators executed short sale transactions without using special Short Sale Order Window designated in KATS system.
- (b) The Respondent also stated that it has always complied with all the directives issued by the Commission and Stock Exchanges from time to time and never provided any opportunity of complaint. The Respondent further stated that short sale transactions are not allowed to any of its clients but out of thousands of transactions on KATS system few transactions of short sales were executed erroneously and same were corrected immediately.
- (c) The Respondent also stated that instructions has been given to all the KATS Operators and trading staff to strictly follow the Rules and Regulation of KSE and the Commission but in the above mentioned cases of short sale transactions, KATS Operators executed short sale orders erroneously without using Short Sale Order Window. The Respondent further stated that in the month of July 2009, only 169,500 shares were over sold in two different accounts as against the total turnover of 80,196,720 shares. The percentage against the turnover was 0.21% which is very nominal and only Rs. 1,097 profit was earned through these transactions. The Respondent added that in the month of August 2009, only 239,182 shares were over sold in two different accounts as against the total turnover of 99,666,845 shares. The percentage against the turnover was 0.24% which is very nominal and only Rs. 9,224 profit was earned through these transactions.
- (d) The CEO of the Respondent at the time of hearing stated that their daily trading volume was very high as compare to the short sale transactions and there is no



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price rigging involved in the scrips as consequent to these low volume short sale transactions. He further added that all the short sale transactions were not executed intentionally and these were mistakenly executed by KATS Operator. The CEO informed that most of the Respondent's clients operate through gateway and there is a system in place which restricts the sale of shares without pre-existing interest. However, in branch office the system is not available and all the above mentioned transactions were executed through branch office. The CEO further informed that the clients in question used to trade heavily in different scrips and during the trading few shares were over sold by these clients and subsequently same were squared in few minutes.

- (e) The CEO emphasized that all the transactions in question were not executed with malafide intentions or to manipulate the share price of the scrip and no material benefit was gained through these transactions. 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 KATS Operators of the Respondent placed the sale orders in the client's account without having pre-existing interest. It was the responsibility of the Respondent to monitor all trading activities being carried out through its brokerage house in order to track and prevent any transaction being made in violation of any applicable rules and regulations. The Respondent should have immediately informed the KSE about the error made by the KATS Operators.
9. Thus the Respondent by executing sales in the client's account without pre-existing interest has violated the Regulations which in turn is violation of Code of Conduct set fourth under the third schedule of the Brokers Rules ("Code of Conduct") that makes it mandatory on the Respondent to execute its business with due care and skill. The Respondent was responsible for each and every order placed or trade executed through its trading terminal. Moreover, it was also the Respondent's responsibility to keep its KATS Operators updated with the applicable rules and regulations to avoid any violation of the same. Therefore, keeping in view the aforementioned, it is evident to me that the Respondent has violated

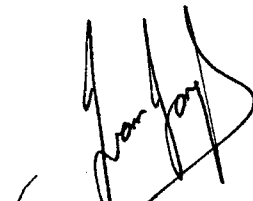


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Clause A2 and A5 of the Code of Conduct of the Brokers Rules which in turn is a violation of Brokers Rules.

10. The violation of the Rules and Regulations is a serious matter which entitles the Commission to even suspend the Respondent's membership but I have elected not to exercise this power at present. However, in exercise of powers under Rule 8 (b) of Brokers Rules, I hereby impose on the Respondent a penalty of Rs. 100,000 (Rupees One Hundred Thousand only). 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 punitive action under the law.
11. 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.
12. 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 Nayat Butt  
Director (SM)

Announced on December 31, 2009  
Islamabad.