



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)

Before The Director (Securities Market Division)

In the matter of Show Cause Notice issued to

AZEE Securities (Private) Limited

Date of Hearing:

March 05, 2009

Present at the Hearing

Representing the Azee Securities

(i) Mr. Syed Qasim Raza

Vice President

Assisting the Director (SMD)

(i) Mr. Muhammad Atif Hameed

Deputy Director

(ii) Mr. Muhammad Ali

Assistant Director

(iii) Ms. Tayyaba Nisar

Assistant Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No.1 (01) /Wash/KSE /MSW/SMD/ 2009/06 dated February 20, 2009 ("the SCN") issued to AZEE Securities (Private) Limited ("the Respondent"), Corporate 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 the Brokers and Agents Registration Rules, 2001, ("the Broker 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 Broker Rules. After examination of Karachi Automated Trading System ("KATS") data of KSE from December 22, 2008 to January 09, 2009 it was observed that the Respondent's client Ms. Karam Noor ("KR") bought and sold 582,500 shares in ten different scrips in such a way that her



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orders for buy and sell matched with each other and did not result in any change in its beneficial ownership of the shares.

3. Based on the above the Commission vide its letter dated January 16, 2009 asked the Respondent to provide comments, along with documentary evidence to clarify its position in the matter. The Respondent vide its letter dated January 20, 2009 stated that the KR and its KATS operator were completely unaware of the by-Laws and ensured that it has taken strong notice of the violation and same will not be repeated in the future.
4. However, subsequent review of KSE trading data from January 20, 2009 to February 12, 2009 showed that the Respondent again engaged in 1318 trades in 83 different scrips on behalf of two of its clients KR and Ms. Sumaira Ghazi ("SG") in such a way that clients buy orders matched their own sell orders to the tune of 2,387,900 shares and did not result in any change of beneficial ownership of the shares.
5. Keeping in view the aforementioned the SCN was issued to the Respondent under the Section 22 of the Ordinance and Rule 8 of the Broker Rules. The Respondent was asked to submit a written reply to the SCN within seven days of the date of SCN and the hearing was fixed in Islamabad for March 05, 2009. On the date of hearing Mr. Syed Qasim Raza ("**Representative of the Respondent**") appeared on behalf of the Respondent.
6. The Respondent made the following submissions during the hearing and its written reply, to the SCN, dated February 26, 2009 ("**the reply**"):-
 - The Respondent vide its reply stated that the accounts of KR and SG ("**the Clients**") are being operated by one of our agent named Mr. Shoaib Ahmed Ansari ("**the Agent**") along with KATS operator. The Respondent further stated that these trades were executed with very narrow spreads in order to generate heavy commissions and due to this some times buy orders matched with sell orders without the change in the beneficial ownership of the shares.
 - The Respondent in its reply stated that it had already warned the Agent, KATS operator and the Clients after receiving the Commission's earlier letter dated January 16, 2009. However, the violations occurred again because of



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which it has given three days notice to its Agent and trader with the consent of the Clients to close and settle their accounts and further trading in these account has also been suspended.

- The Representative of the Respondent during the course of hearing stated that the said instances of wash trades were not executed in order to manipulate the market price of the scrips but the trading in the Clients' accounts was done by the Agent to generate commission income. When the Representative of the Respondent was asked about the Agent, he stated that the Agent is not registered with the Commission as an agent and is working in its Gulshan-e-Iqbal Karachi branch. He further stated that the Agent was operating the account on behalf of the Clients as they were his close relatives.
 - In reply to the query about the repetition of violations by the Respondent in spite of the Commission's letter dated January 16, 2009 the Representative of the Respondent admitted that it failed to monitor activity of its Clients and employees as it was experiencing severe liquidity constraints due to recent stock market crises and its management was busy in resolving clients' complaints lodged against it with the KSE and the Commission.
 - The Representative of the Respondent during the hearing admitted its mistake and prayed that keeping in view the aforementioned arguments of the Respondent, the Commission may take a lenient view in this matter. He further ensured that the violations will not occur again, for which Commission can monitor its clients trading activities in future.
7. I have considered the contentions of the Respondent and the issues raises therein and the same are addressed point wise below:
- After a detailed and thorough perusal of facts, written submissions of the Respondent and averments made during the hearing, it is evident that the Respondent has executed the wash trades on its Client's behalf. The record proves that the Respondent failed to exercise due care and skill in conduct of its business in spite of bringing to the knowledge of the Respondent the wrong trading practices being followed by its KATS operator. The available record and Respondent's assertions proves that the Respondent failed to



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comply with the code of conduct laid down under the third schedule of the Broker Rules ("the Code of Conduct") which is a violation of Rule 12 of the Broker Rules which in turn is a violation of Rule 8 of the Brokers Rules and the Section 22 of the Ordinance.

- The Representative of the Respondent during the course of hearing and in its written reply stated that the trades in question were executed in order to generate heavy commission which is violation of clause B (4) - "Business and Commission" of Code of Conduct which is reproduced here as under:

"Business and commission. - (1) A broker shall not encourage sales or purchases of securities with the sole object of generating brokerage or commission."

In its written and oral statement the Respondent has clearly acknowledged that trading in the account of the Clients was done in order to generate commission income. From the aforesaid it is clear to me that the Respondent violated clause B (4) - "Business and Commission" of the Code of Conduct.

- Further, the Respondent vide its letter dated February 26, 2009 informed the Commission that the account of the Clients were operated by the Agent who was acting as Respondent's agent in its Gulshan-e-Iqbal branch. However, during the hearing when the Respondent was asked whether the Agent was registered as Respondent's agent with the Commission the Respondent replied that he was not registered with the Commission. This is a clear violation of a rule 13 of the Brokers Rules which is reproduced here under

"A person desirous of acting as an agent shall make an application to the Commission in Form C as set out in First Schedule, for grant of a certificate of registration, through a broker with whom he is to be affiliated and the concern stock exchange".

From the aforesaid there remains no doubt in my mind that the Respondent has failed to comply with the Rule 13 of the Brokers Rules as he failed to register the Agent with the Commission.



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- Further the Respondents assertion that it failed to monitor its clients and employees activities due to its concentration on matters relating to financial crisis and resolution of client's complaints does not absolve the Respondent from its responsibility to ensure compliance of applicable rules and regulations. It was the duty of the Respondent to put in place proper systems and controls at its brokerage house to ensure compliance with applicable rules and regulations at all times.
8. I strongly believe that the Respondent has some responsibility towards market. The Respondent is duty bound to follow the rules and regulations and to act with due skill, care and diligence in the conduct of all its business. Further, the respondent is not expected to create false market or indulge in any act which is detrimental to investor's interest or which leads to interference with smooth and fair functioning of the market. As a market participant, it is the obligation of the Respondent to maintain high standard of integrity, protect the interest of investors and ensure fair, efficient and transparent market.
9. Considering the above facts and the contentions of the Respondent, it is established that the Respondent has committed the following violations:-
- i) Violation of clause A. (2) & (5) of the Code of Conduct by executing wash trades in the Clients account which in turn is violation of Rule 8 and 12 of the Brokers Rules.
 - ii) Violation of clause B. (4) of the Code of Conduct by executing trades in the Clients accounts in order to generate commission income which in turn is violation of Rule 8 and 12 of the Brokers Rules.
 - iii) Violation of Rule 13 of the Brokers Rules by not registering its Agent with the Commission under the Brokers Rules which in turn is violation of Rule 8 of the Brokers Rules.
10. In light of the above facts that Respondent by executing wash trades, executing trades in order to generate commission income and allowing an unregistered agent to operate through its Brokerage House has violated the Broker Rules and Code of Conduct and thereby, attracting Rule 8 of the Broker Rules and Section 22 of the Ordinance. The violation of the Brokers Rules is a serious matter which entitles the



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Commission to suspend the Respondent's registration. However in view of the fact that I have been assured by the Representative of the Respondent that in future they will be more careful, I am taking a lenient view by imposing only fine on the Respondent on this occasion. Therefore, I impose a fine of Rs. 300,000 (Rupees Three Hundred Thousand only) on the Respondent under Section 22 of the Ordinance for the violation mentioned at para 9(i) above keeping in view the magnitude and extent of violation and the fact that Respondent was already informed about the said violation by the Commission but it kept on repeating the same. As for the violation mentioned at para 9 (ii) and 9(iii) a fine of Rs. 50,000 (Rupees Fifty Thousand only) each is also imposed on Respondent under Section 22 of the Ordinance. This sum of Rs. 400,000 (Rupees Four Hundred Thousand Only) should be deposited in the account of the Commission being maintained in the designated branches of MCB Bank Ltd., no later than thirty (30) days from the date of this Order. A copy of the Challan form evidencing the deposit of penalty amount must be sent to the Commission. I would further direct the Respondent to ensure that full compliance be made of all rules, regulations and directives of the Commission for avoiding any punitive action under the law.

Imran Inayat Butt
Director
Securities Market Division

Announced on April 03, 2009
Islamabad