



Securities and Exchange Commission of Pakistan

Securities Market Division

Through Courier

Before The Director / HOD (MSRD)

In the matter of Show Cause Notice issued to Black Stone Equities (Private) Limited
under Section 22 of the Securities and Exchange Ordinance, 1969 read with Rule 8 of
the Brokers and Agents Registration Rules, 2001

Date of Hearing:

February 18, 2015

Present at the Hearing:

Representing Black Stone Equities (Private) Limited

i. Mr. Iftikhar Ahmad

Chief Executive Officer

Representing Islamabad Stock Exchange Limited

i. Mr. Sagheer Mushtaq

Chief Regulatory Officer

ii. Mr. Muhammad Waris Niazi

Deputy General Manager

Assisting the Director/HOD (MSRD)

i. Mr. Tahir Mahmood Kiani

Deputy Director

ORDER

1. This Order shall dispose of the proceedings initiated through Show Cause Notice No. SM/BRI-35/1/2013 dated January 27, 2015 ("**SCN**") issued to Black Stone Equities (Private) Limited, ("**the Respondent**"), Trading Right Entitlement Certificate Holder/Broker of the Islamabad Stock Exchange Limited ("**ISE**") under Section 22 of Securities and Exchange Ordinance, 1969 ("**SE Ordinance**") and Rule 8 of the Brokers and Agents Registration Rules, 2001 ("**the Rules**").
2. Brief facts of the case are that a complaint from Mr. Etezaz-ud-Din Ahmed ("**the Complainant**") was received against the Respondent. The Complainant alleged *inter alia* in his complaint that he had invested a total sum of Rs.4.84 million with the Respondent up to June, 2013 for stock trading but the Respondent failed to trade in his





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account and shares were not transferred in his sub-account maintained with Central Depository Company of Pakistan Limited (**"the CDC"**). The Complainant sought recovery of Rs.2.38 million against his fictitious losses booked by the Respondent and payment of Rs.3.00 million for using his capital for personal gains by the Respondent.

3. The Commission forwarded the Complaint to ISE on December 23, 2013 for resolution as per its regulations. The Commission received an award dated December 1, 2014, forwarded by ISE. The perusal of award passed by the Panel of Arbitrators of ISE disclosed regulatory violations on the part of the Respondent as most of the Complainant's shares were not transferred in his CDC sub-account during July 2008 to June 30, 2013 despite receipt of the payments from the Complainant. The initial scrutiny of the record by the Commission also revealed the same.
4. In view of the above, the Commission issued a SCN to the Respondent under Section 22 of SE Ordinance and Rule 8 of the Rules. Accordingly, the Respondent was advised to appear before the undersigned on February 10, 2015 at the Commission's Head Office Islamabad. The Chief Regulatory Officer of the ISE was also advised to attend the hearing in the said matter.
5. On the date of hearing, Mr. Iftikhar Ahmad, Chief Executive Officer (**"the CEO of the Respondent"**) appeared on behalf of the Respondent. He intimated that he could not prepare SCN's reply due to precarious health of his daughter and he sought extension of seven days for reply. Acceded to his request, seven days extension was granted to him and hearing was re-scheduled for February 18, 2015.
6. The arguments put forwarded by the Respondent in its written response to the SCN submitted via letter dated February 16, 2015 are reproduced below:

"2 (i) *Mr. Etizaz Uddin Ahmed, one of our clients lodged a complaint with NAB which was forwarded to SECP that was later sent under the regulations Islamabad Stock Exchange (ISE) for action under the relevant laws. It is mentioned here that the Complainant lodged another complaint directly to the Managing Director of ISE. It is relevant to mention here that Mr. Etizaz ud Din Ahmad opted at his own to not operate his account through Black Stone Equities (Pvt.)Ltd. ("BSE") months before his instant complaint and had already signed zero balance statements after asking in writing and receiving all what was due to him in terms of money and securities. Mr. Etzaz ud Din Ahmad having received all of his deliveries and account balance in prior and also signed for the accuracy of all these statements, thereafter filed this complaint with NAB being fully aware of the process of filing a complaint against a broker and knowing the fact that SECP is the regulator of the securities business, clearly indicates that agenda is to malign and disrepute the BSE and for accomplishing ulterior motives by pointing out non-compliance to some regulatory requirements which he knew from the beginning of his*





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account opening with BSE and being done with his consent. Mr. Etzaz Ud Din Ahmed complaint aimed at blackmailing the BSE and minting money through this exploitation from BSE which BSE had already refused as he contacted BSE and threatened BSE of dire consequences if his unfair demands are not met.

- (ii) The award by the arbitrators was announced on December 01, 2014 rejecting the complaint of Mr. Etzaz Ud Din Ahmed. The arbitrators did not find a single incidence where money in account was not paid on demand or deliveries were not transferred to Mr. Etzaz account whenever asked by him as all shares deliverable to Mr. Etzaz were transferred by BSE to his CDC account on his written request and his credit amount was paid to him by the BSE in full.*
- (iii) The arbitrators determined that Mr. Etzaz was receiving statements of his account on regular basis and no reservation or discrepancy was ever pointed out and communicated to the BSE. Mr. Etzaz confirmed to the arbitrators that he collected all the statements from BSE and also signed all these statements for which BSE provided proof in this regard.*
- (iv) The arbitrators have not been able to find a single fictitious trade in Mr. Etzaz account as was alleged by Mr. Etzaz.*
- (v) It has also been established by the arbitrators that the complainant was himself directing for operation of his account as BSE and Mr. Etzaz both agreed that Mr. Etzaz himself was the only authorized person to trade the account. This fact shows that Mr. Etzaz fully aware of all trading activities in his account and signed for receipt and accuracy of all his trading activities.*
- (vi) Arbitrators also recognized that all trades were executed in KSE and shares were held by KSE member in house account. Activity and order placement indicates that all the shares were bought from market by the BSE at the time Mr. Etzaz placed order.*
- (vii) It is also observed by the arbitrators that the shares were bought at KSE and kept in house account and later on sold from house account of KSE broker and bought at the same time with Mr. Etzaz ud Din Ahmad and transferred to his sub-account through BTB during 20.7.2013 to 29.7.2013. This exercise was carried out as shares were held in house account with KSE broker on Mr. Etzaz behalf could not be technically transferred directly to Mr. Etzaz account. The arbitrators arrived on this conclusion after evidencing the same from BTB transactions and the activity report of NCCPL.*





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(viii) *The award of the arbitrators dated December 01, 2014 is attached as Annex- I for reference and record.*

3. *From the above, it is clear that the client namely Mr. Etzaz was handled by BSE in accordance with the rules and regulation except that his shares were kept in house account with the KSE broker, his orders were placed whenever he ordered, his quantity and price desired were met and trades executed accordingly, trade confirmations were issued that he duly received and signed. It is also proved that his shares were transferred and amount due paid to him whenever he required for it. Now the above position clearly depicts that investor's interest was put ahead of our own interest and the client stands fully protected and that is SECP mandate as a regulator, so as regards the protection of investors is concerned that is fully ensured.*
4. *Having said above, the manner in which transactions are to be executed is another mandate of the SECP and there is only one area where we BSE stands deficient that is placing the shares of the client in the respective sub-account. There is history and technical grounds associated with handling securities by the ISE brokers being initiating brokers whereas KSE brokers are executing brokers, and these issues are peculiar to ISE. The issue, when looked in this pretext, provides ground for the regulator to take a lenient view. The regulator made it mandatory that shares be transferred to the sub-account of the Client after 2011, however, the client never asked for it and when he desired so, his deliveries and amount were paid to him. Mr. Etzaz was given with the proceeds of dividends , bonus shares as well as right shares and signed receipt, he was given even those shares which he never claimed but BSE had record of his executed transaction. Due to my personal domestic issues and health issues, I may have been ignoring complying with the laid down requirements after it was made obligatory to place shares in clients sub accounts and actually the share lying at Karachi brokers in main account automatically got transferred to company's sub account. There was no way to transfer them to the clients directly. Therefore, only non-adherence is in regard to placing the shares in sub-account of the clients. Hence, all was not done with the intent to put clients at loss but it was out ignorance that I know cannot be taken as an excuse but having explained the circumstances above, I request regulator to take a lenient view.*
5. *Admittedly, we know that this is not an excuse to follow a manner not prescribed by SECP. We have now completely rectified it now and all shares of all our clients stand transferred to their respective sub accounts and all money is segregated in a separate account and as a proof a statements in this regard are attached herewith.*

Having explained the above and our positive intentions and the rectification thereof, it is humbly submitted that SECP should take a lenient view and our non-



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compliance is requested to be condoned. We assure SECP to comply with all requirements in future, although all steps have been taken already but I will make sure myself that no incidence like this is repeated."

7. The CEO of the Respondent attended the hearing on February 18, 2015. Mr. Sagheer Mushtaq, Chief Regulatory Officer and Mr. Muhammad Waris Niazi, Deputy General Manager also attended the hearing on behalf of ISE. The arguments presented by the CEO during the course of hearing are summarized below:

- i). The CEO reiterated the arguments submitted by the Respondent through its aforementioned written reply. He was inquired about reasons for non-transfer of shares in CDC sub-account of the Complainant during July 1, 2008 to June 30, 2013. He admitted that the Respondent stood deficient in placing the shares in CDC sub-account of the Complainant. He explained that the Complainant never asked for it and when he desired so, his deliveries and amount were paid to him. He further added that the Complainant was given with the proceeds of dividends, bonus shares as well as right shares and signed receipts, moreover, he was given even those shares which he never claimed. He accepted that due to his personal domestic issues and health issues, he could not comply with the requirement to place shares in Complainant sub-account.
- ii). With regard to the Respondent's failure of not trading in the UIN of the Complainant during July 1, 2008 to June 30, 2013, the CEO apprised that all trades were executed in Karachi Stock Exchange Limited ("KSE") and shares were held by KSE members in house accounts. He explained that shares were bought from market by the Respondent at the time the Complainant placed orders. He further stated that shares available in main accounts of Karachi brokers automatically got transferred to company's sub accounts and there was no way to transfer these shares to the Complainant's account directly. He submitted that it was not done with the intent to put the Complainant at loss but it was only ignorance that cannot be taken as an excuse but having explained the circumstances above.
- iii). At the end, the Respondent requested the Commission to take a lenient view and violations be condoned. He, further, informed that he has rectified the earlier non-compliances and all the shares of the clients are transferred to their respective CDC sub-accounts and all money is segregated in a separate account.

8. I have heard the arguments presented by the CEO of the Respondent during the course of hearing. Additionally, I have perused the available record and the written response filed by the Respondent. Accordingly, my findings on the arguments and assertions made by the Respondent to the issues raised in the SCN are as follows:



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- i). I have examined the trading record provided by the Respondent to the Complainant during the period July 01, 2008 to June 30, 2013 with the trading executed in the Respondent's proprietary account and trading in the UIN of the Complainant. It has observed that trading showed in client ledger account and his shares were not transferred to the Complainant's CDC sub-account even after the implementation of securities transfer project in December 2010 wherein the settlement of the vast majority of securities transactions executed in stock exchanges were performed directly from the respective accounts of investors. This is a fact admitted on record by the Respondent.
 - ii). Although, the Respondent has transferred shares of the Complainant into his CDC sub-account through BTB during July 20, 2013 to July 29, 2013 and paid credit balance to him. However, it was done only on demand of the Complainant and not as per Regulations. Pursuant to Regulation 43 (1) of the General Regulations of the ISE and condition 7 (a) of the Special Terms and Conditions of the Account Opening Form as provided in General Regulations of the ISE, the Respondent was explicitly required to ensure delivery of CDC eligible securities in the CDC account of the Complainant after full payment by him. Apart from this, the Respondent also failed to trade in the UIN of the Complainant.
 - iii). During the course of hearing, I sought status of actions taken by ISE on non-compliance of the above Regulations highlighted in award. In reply, Mr. Sagheer Mushtaq intimated that ISE vide letter dated January 26, 2015 has appointed inspectors to inspect books of accounts of the Respondent to check non-compliances with Regulations relating to segregation of clients assets.
9. 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 evident the Respondent failed to comply with the regulatory framework. Moreover, the Respondent's admission of failure to comply with said Regulations has proved non-compliance on its part. The transfer of shares by Respondent on the Complainant's request does not absolve the Respondent from consequences of the violations committed by it.
10. The Respondent being registered with the Commission as a broker is expected to exercise due skill, care and diligence in the conduct of its business and ensure full compliance of the laws and relevant rules and regulations. The Respondent has exhibited negligence in performance of its duties towards clients and has deviated from procedure provided in the regulatory framework. The Commission has very serious apprehensions on such conduct of the Respondent. It is the responsibility of every market participant including the Respondent to maintain the integrity of the capital market with prime objective of the protection of clients' interest. The Respondent in its written response and CEO during the course of hearing admitted his mistake and assured compliance with the regulatory requirements in future.





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11. Violations of rules and regulation is a serious matter of concern, therefore, in exercise of the powers conferred under Section 22 of the SE Ordinance, I hereby imposed a penalty of Rs.500,000/- (Rupees Five Hundred Thousand only) on the Respondent to be deposited 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 copy of the deposit challan to the Commission. The Respondent is further directed to fully comply with all the Rules, Regulations and directives of the Commission in future for avoiding any punitive action under the law.
12. This Order is issued without prejudice to any other action that Commission may initiate against the Respondent in accordance with law on matters subsequently taken up or investigated and/ or brought to the knowledge of the Commission.

Announced on March 24, 2015
Islamabad.




(Imran Inayat Butt)
Director/HOD (MSRD)