



Securities and Exchange Commission of Pakistan

Securities Market Division

Through Courier

Before The Director / HOD (MSCID)

In the matter of Show Cause Notice issued to

Invest Capital Markets Limited, Broker Karachi Stock Exchange Limited

Date of Hearing:

September 20, 2012

Present at the Hearing:

Representing Invest Capital Markets Limited

(i) *Mr. Sohail Yousaf*

Director

(ii) *Mr. Ahmed Usman*

Chief Financial Officer

Assisting the Director (SMD)

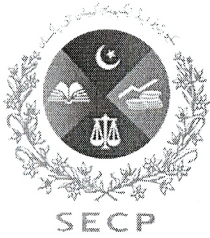
(i) *Mr. Kapeel Dev*

Assistant Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(07) BS/KSE/MSW/SMD/2011 dated September 07, 2012 ("SCN") issued to Invest Capital Markets 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") and 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 month of June and July 2012, it was noted that your client Saad Amir ("SA") and inter exchange client



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namely Tahir Rehman ("TR") engaged in selling and then squaring up their positions in different scrips.

3. During the month of June and July 2012, SA first sold and then squared up positions in the scrips of Jahangir Siddiqui Company Limited ("JSCL"), National Bank of Pakistan ("NBP"), Engro Foods Limited ("EFOODS") and D. G. Khan Cement Company Limited ("DGKC").

4. During the month of June and July 2012 TR first sold and then squared up positions in the scrips of Attock Refinery Limited ("ATRL"), EFOODS, Engro Corporation Limited ("ENGRO"), Fauji Fertilizer Company Limited ("FFC"), Lucky Cement Limited ("LUCK"), Pakistan Petroleum Limited ("PPL") and Pakistan State Oil Company Limited ("PSO").

5. The Commission vide its letter dated July 27, 2012 sought clarification from the Respondent regarding eight different instances wherein sales were executed by SA and TR. In response the Respondent vide its letter dated July 27, 2012 received in the Commission on August 06, 2012 informed that TR is a client of Falki Capital (Pvt.) Limited, broker of the Islamabad Stock Exchange, ("ISE Broker") and operates through interexchange trading account. The Respondent provided the letter of ISE Broker with its reply wherein the ISE Broker admitted its fault and informed that the transactions in question were executed due to the mistake of its new trader. Moreover, the Respondent informed that trades executed by TR were erroneously entered by its trader and upon realization the same trades were squared up.

6. The aforementioned response of the Respondent was not considered satisfactory as it did not contain any evidence and justification regarding the execution of aforementioned sales by SA and TR. 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 through the SCN, was asked to explain its position through written reply within seven (7) days of issuance of SCN and also required to



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appear in person or through an authorized representative before the undersigned at Commission's Head Office in Islamabad on Thursday, September 20, 2012 at 10:30 a.m. for hearing. However, the venue of the hearing was shifted to Commission's Karachi office.

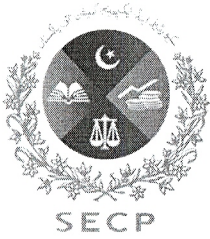
7. The Respondent vide its letter dated July 25, 2012 submitted its reply to the SCN. The important contentions raised in the response to the SCN by the Respondent are reproduced hereunder:-

"We, Invest Capital Markets Limited regret that the trades done in the account of Mr. Saad Amir were erroneously entered by our trader on the KATS and we came to the conclusion after thorough investigation that the trades in question were carried out due to careless attitude of the trader and had already taken strict disciplinary action."

"Invest Capital Markets Limited had always strictly adhered to the rules and regulations governing the operations of the exchange and believe this as one off event and expect that the regulator will take a lenient view on the matter. We hereby confirm and reiterate that the error occurred was not deliberate or intentional."

"Invest Capital markets Limited always thrive to serve their clients prudently by strictly adhering to the regulations governing the exchange. We hope that exchange will take a lenient view on the matter and give us the opportunity to serve our clients efficiently by strictly adhering to the rules and regulation governing the Exchange."

8. On the date of hearing, Mr. Sohail Yousaf, Director / Head of Equity & Settlement and Mr Ahmed Usman, Chief Financial Officer of the Respondent ("**Representatives**") appeared on behalf of the Respondent. Following are the important contentions made by the Representative at the time of hearing:-

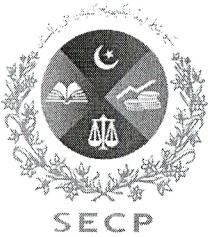


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- i) The Representatives asserted that proper systems and control are in place at brokerage house. Further, they admitted the execution of short sale by its client SA, who is trader of the Respondent and attributed this mistake as lack of awareness on his part.
- ii) The Representatives contended that TA was the client of ISE Broker and it was the responsibility of ISE Broker to monitor its client position and trading activities because all the transactions were conducted through online terminal. They informed that the matter has also been taken up with the ISE Broker and they admitted the mistake and have given assurance that the same will not happen again.
- iii) The Representatives explained that Respondent tried to take necessary measures to stop such type of trading but was unable to find any solution. Even the issue was taken up with vendor, where, they have been informed that problem can only be fixed when both Respondent and ISE Broker, have same trading software.
- iv) The Representatives prayed that the Commission may take a lenient view in this matter and drop the proceedings because the said trades were merely result of ignorance and unawareness.

9. After a detailed and thorough perusal of the facts, evidence/information available on record, contentions and averments made by the Representatives during the course of the hearing, it is established that the clients of the Respondent placed the sale orders without having pre-existing interest. The contention of the Respondent that one of the clients was the inter-exchange client and it was the responsibility of ISE Broker to monitor its trading is not true. 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 Clause - 2(a) of the Short



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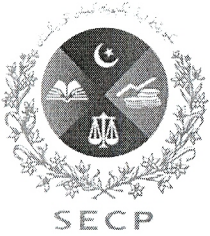
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Selling under Ready Market, 2002 (the "Regulations") says "Blank Sales" means "a sale by a party that does not own shares or the sale does not constitute a sale with pre-existing interest or is a sale by a party that has not entered into a contractual borrowing arrangement to meet delivery requirements". Hence, the sale by the Respondent without having pre-existing interest in the client's account falls within the ambit of Blank Sale which is prohibited in the Regulations.

10. 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(2) and A(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. Further, placement of the sale orders without having pre-existing interest interfered with the fair and smooth functioning of the market and created misleading impression for the other investors.

11. 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 membership 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. 100,000 (Rupees One Hundred Thousand only). Additionally, I strongly advise the Respondent to take immediate measures and put in place proper systems and checks to eliminate the occurrence of such instances in future. I again 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.

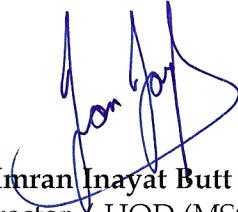
12. The matter is disposed of in the above manner and the Respondent is directed to deposit the fine in the account of the Commission being maintained in the designated branches of MCB Bank Limited not later than thirty (30) days from the date of this Order and furnish the copy of the deposit challan to the undersigned.



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13. 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 October 19, 2012
Islamabad.