



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Before The Director/HOD (MSCID)

In the matter of Show Cause Notice issued to United Capital Securities (Pvt) Limited

Date of Hearing:

March 22, 2012

Present at the Hearing:

Representing United Capital Securities Limited

i) *Mr. Wasi Mirza*

Chief Executive Officer

ii) *Ms. Haroon Younus*

Director

Assisting the Director/ HOD (MSCID)

i) *Ms. Tayyaba Nisar*

Assistant Director

ii) *Mr. Kapeel Dev*

Assistant Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. MISC/MSW/SMD/1(5)2004/1471 dated January 17, 2012 (“SCN”) issued by the Securities and Exchange Commission of Pakistan (“Commission”) under Section 22 of the Securities and Exchange Ordinance, 1969 (“the Ordinance”) read with Rule 12 of the Brokers and Agents Registration Rules, 2001, (“the Brokers Rules”) to United Capital Securities (Pvt) Limited (“the Respondent”).
2. The brief facts of the case are that the Respondent was a member of Karachi Stock Exchange (Guarantee) Limited (“KSE”) and registered with the Commission as broker under the Brokers Rules. On examination of the Karachi Automated Trading System (“KATS”) data from August 01, 2011 to November 01, 2011 (“the Period”), it was observed that there were volatile price movements in the following scrips:
 - i. Annor Textile Mills Limited (“ANNT”)
 - ii. Climax Engineering Company Limited (“CLIM”)
 - iii. Colony Sarhad Textile Mills Limited (“COST”)



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

Continuation Sheet - 1 -

- iv. Hala Enterprises Limited (“HAEL”)
- v. Hamid Textile Mills Limited (“HATM”)
- vi. Libass Textile Limited (“LIBT”)
- vii. Mubarak Textile Mills Limited (“MUBT”)
- viii. United Brands Limited (“UBDL”)

3. The detailed analysis of the trading data for the aforementioned scrips (“the Scrips”) indicated that two clients of the Respondent namely Ejaz Ahmed Khan (“EAK”) and Shahmir Khan (“SK”) actively traded in the Scrips in a manner whereby majority of their transactions matched with each other and resulted in price appreciation of the Scrips.
4. The price summary of the Scrips during the Period indicated considerable price movement with very thin trading volume on the days when EAK and SK traded. Moreover, in majority of the instances the Scrips closed at the upper price limit of the day, consecutively for many days. Following are the details of the Scrips along with price movement during the period:

Table 1

Sr. #	Scrip Name	Shares Prices (For the days when the clients traded during the Period)						
		Open Price		Close Price		% increase/ (decrease)	High Price	
		Date	Rate (Rs.)	Date	Rate (Rs.)		Date	Rate (Rs.)
1	ANNT	4-Oct-11	11.00	10-Oct-11	14.75	34.09%	10-Oct-11	14.75
2	CLIM	10-Oct-11	7.00	1-Nov-11	6.99	(0.14%)	1-Nov-11	8.99
3	COST	8-Aug-11	0.30	4-Oct-11	5.65	1,783.33%	7-Sep-11	5.65
4	HAEL	4-Aug-11	8.00	6-Sep-11	11.00	37.50%	6-Sep-11	11.00
5	HATM	10-Aug-11	1.05	12-Aug-11	3.90	271.43%	12-Aug-11	3.90
6	LIBT	4-Oct-11	0.60	6-Oct-11	3.55	491.67%	6-Oct-11	3.55
7	MUBT	25-Aug-11	1.00	12-Oct-11	1.40	40.00%	30-Sep-11	2.80
8	UBDL	19-Aug-11	27.00	27-Sep-11	45.70	69.26%	27-Sep-11	45.70

5. In order to further probe the matter, the date-wise trading details of the Scrips were examined which indicated that EAK and SK, while trading through the Respondent, were the main traders during the days when the share prices witnessed an increase. Further, the pattern of trading revealed circular trades between EAK and SK, which generated artificial volume in the Scrips. The date-wise trading summary of the clients’ activity in the Scrips is indicated below:



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

Continuation Sheet - 2 -

Table 2

Date	Scrip	Open Price (Rs.)	Close Price (Rs.)	Volume	Ejaz Ahmed Khan		Shahmir Khan	
					Buy Qty	Sold Qty	Buy Qty	Sold Qty
4-Oct-11	ANNT	11.00	11.99	500	500			
5-Oct-11	ANNT	11.99	12.90	500	500			
7-Oct-11	ANNT	12.90	13.85	500		500	500	
8-Aug-11	COST	0.30	1.30	500		500	500	
9-Aug-11	COST	1.30	2.30	2,000		2,000	2,000	
10-Aug-11	COST	2.30	3.30	500		500	500	
16-Aug-11	COST	3.11	3.99	500		500	500	
6-Sep-11	COST	3.66	4.65	1,000		1,000	1,000	
7-Sep-11	COST	4.65	5.65	500		500	500	
21-Sep-11	COST	1.60	0.60	500	500			500
30-Sep-11	COST	0.60	1.60	500	500			500
4-Oct-11	COST	1.60	2.55	500				
4-Aug-11	HAEL	7.40	8.00	650		500		
5-Aug-11	HAEL	8.00	9.00	500		500	500	
8-Aug-11	HAEL	9.00	9.98	1,000	500	500	500	500
19-Aug-11	HAEL	9.00	10.00	500	500			500
6-Sep-11	HAEL	10.00	11.00	650	650			650
10-Aug-11	HATM	1.05	2.00	500		500	500	
11-Aug-11	HATM	2.00	3.00	500		500	500	
12-Aug-11	HATM	3.00	3.90	1,500		1,500	1,500	
4-Oct-11	LIBT	0.60	1.60	500	500			
5-Oct-11	LIBT	1.60	2.60	500	500			
6-Oct-11	LIBT	2.60	3.55	500	500			
7-Oct-11	LIBT	3.55	2.55	1500	500	1000		
19-Aug-11	UBDL	27.00	28.35	500		500	500	
22-Aug-11	UBDL	28.35	29.50	500		500	500	
5-Sep-11	UBDL	29.50	30.74	500	250	250	250	250
6-Sep-11	UBDL	30.74	31.68	625	250	375	250	250
7-Sep-11	UBDL	31.68	32.31	600	350	250	250	350
8-Sep-11	UBDL	32.31	33.40	620	275	335	275	275
9-Sep-11	UBDL	33.40	34.94	1,000	500	500	500	500
12-Sep-11	UBDL	34.94	36.34	500	250	250	250	250
15-Sep-11	UBDL	36.34	37.83	500	250	250	250	250
16-Sep-11	UBDL	37.83	39.61	1,477	250	250	250	250
19-Sep-11	UBDL	39.61	41.05	500	250	250	250	250
20-Sep-11	UBDL	41.05	40.95	20,700	250	350	250	250



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

Continuation Sheet - 3 -

Date	Scrip	Open Price (Rs.)	Close Price (Rs.)	Volume	Ejaz Ahmed Khan		Shahmir Khan	
					Buy Qty	Sold Qty	Buy Qty	Sold Qty
21-Sep-11	UBDL	40.95	42.75	500	250	250	250	250
22-Sep-11	UBDL	42.75	44.68	500	250	250	250	250
23-Sep-11	UBDL	44.68	42.45	0				250
26-Sep-11	UBDL	42.45	43.79	600	250	350	250	250
27-Sep-11	UBDL	43.79	45.7	4,000				
20-Oct-11	CLIM	5.00	6.00	500	500			
21-Oct-11	CLIM	6.00	7.00	500		500		
25-Oct-11	CLIM	7.00	7.99	500	500			
1-Nov-11	CLIM	7.99	6.99	500	500	500		
25-Aug-11	MUBT	1.00	1.25	500				
28-Sep-11	MUBT	1.00	1.88	500				
30-Sep-11	MUBT	1.88	2.80	500		500	500	
12-Oct-11	MUBT	0.62	1.40	10,505	305	105		

6. While reviewing the order level data and trading data of EAK and SK during the Period, it was noted that at various instances EAK and SK placed their bids and offers regularly at the upper limit in such a way that bids and offers matched with each other and the Scrips closed at the upper price limit of the day.
7. In view of the above, the Commission sought information regarding the trading accounts of EAK and SK from the Respondent vide letter dated September 29, 2011. The information provided by the Respondent revealed that EAK and SK are related to each other as SK is the son of EAK. *Prima facie* it appeared that EAK and SK were trading in collusion with each other in the Scrips.
8. In light of the aforementioned, the SCN dated January 17, 2012 under Section 22 of the Ordinance read with Rule 12 of the Brokers Rules was issued to the Respondent. The Respondent was asked to submit a written reply within seven days of the date of SCN and hearing was fixed on January 31, 2012 at Commission's Head Office, Islamabad.
9. The Respondent vide its letter dated January 31, 2012 replied that both the clients acted on their own. Further, it requested to hold the hearing at Karachi. The Commission in the interest



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

Continuation Sheet - 4 -

- of justice vide its letter dated January 31, 2012 acceded to the request of the Respondent and directed it to submit the written response to the SCN by February 09, 2012.
10. The Respondent vide its letters dated February 01, 2012, February 24, 2012 and March 14, 2012 reiterated its willingness to appear in person on hearing, however, failed to submit its written response to the SCN despite of various reminders.
11. It is pertinent to mention that during the course of the present proceedings, the Respondent was suspended by the KSE on February 01, 2012 on account of non-resolution of various investors' complaints. Subsequently, the Respondent was expelled from the KSE on March 05, 2012 due to its inability to resolve the outstanding investors' complaints.
12. The hearing in the matter was held on March 22, 2012. The hearing was attended by Mr. Wasi Mirza, CEO and Mr. Haroon Younus, Director ("**Representatives of the Respondent**") on behalf of the Respondent.
13. The Representatives of the Respondent at the time of hearing made following verbal submissions:
- (i) *The issue was revealed to the Respondent only after the receipt of the Commission's SCN. The trading practice of EAK and SK didn't raise any suspicions at the Respondent's end as*
- a) *EAK and SK were operating in very illiquid scrips and quantum of their transactions was minimal.*
- b) *Both the clients were not executing Blank Sales, as they possessed position for the particular transactions they executed.*
- c) *No significant profit/ loss was booked by the clients, due to circular trading pattern.*
- (ii) *The Representatives of the Respondent explained that EAK belongs to an area of interior Sindh and used to place orders through telephone. They further stated that after the receipt of the Commission's SCN, the clients were inquired regarding the rationale behind the execution of the trades in question, for which the clients didn't*



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

Continuation Sheet - 5 -

provide any proper justification. Further due to routine activity of the clients in particularly thinly traded scrips the KATS operator of the Respondent was also unable to comprehend the trading pattern of the clients.

- (iii) The trading accounts of the both the clients were closed by the Respondent after the receipt of the inquiry letters from the Commission.*
- (iv) The Respondent admitted that this was shocking news for its management that such malpractice was being conducted through their brokerage house and it was not aware of the details of the matter.*
- (v) The Respondent contended that due to lack of business during the period under review it was practically impossible for the Respondent to scrutinize the clients who were bringing in business and apparently not involved in any market abusive activity.*
- (vi) The Respondent further argued that it had no intention or involvement in any such act which is in contrast with the rules and regulations. Further, no director/ employee was part of the scheme of trading practice executed by EAK and SK.*
- (vii) The Respondent pleaded that keeping in view the non-involvement of the Respondent in the matter and the fact that Respondent is an expelled member of the KSE and is engaged in the settlement of the claims of its clients in a make shift office in the premises of the KSE, the Commission may take a lenient view in the matter.*

14. I have examined the facts, evidences and documents on record, in addition to written and verbal submissions made on behalf of the Respondent and my findings on the issues are as follows:

- i. Accounts of EAK and SK were not operating independently rather they were trading in correlation with each other. The Account Opening Forms of both clients indicate clear linkages and they are related as father and son. Moreover, the transactions were being operated through same terminal and by same KATS operator. Further, numerous transactions were reversed on the same day, therefore, beneficial ownership for the transactions did not change. The trades in question resulted in price inflation and generation of artificial volume which in turn created false market. Therefore, the element of collusion is established.



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

Continuation Sheet - 6 -

- ii. The contention of the Respondent that it was not aware of the execution of the transactions being executed by EAK and SK indicates irresponsible and negligent conduct on part of the Respondent and weak internal controls. The clients of the Respondent were operating in illiquid scrips and were contributing to majority of its volume. Further, at various occasions the clients were involved in circular trading thus buying and selling among themselves. It was the duty of the Respondent to ensure that its employees (traders) are vigilant and well trained to detect and prevent execution of such transactions.
 - iii. The contention of the Respondent that no significant profit/ loss was booked by the EAK and SK by trading through its brokerage house is irrelevant. The trading executed between both the clients resulted in considerable price appreciation of the Scrips. Further, in majority of the instances the Scrips closed at the upper price limit of the day, consecutively for many days.
 - iv. The Respondent has contended that there was no involvement by the management/ employee for any manipulative activity. It is pertinent to mention that the Respondent was providing brokerage services to its clients for transactions which resulted in artificial volume and price increase in the Scrips mentioned above. The Respondent was responsible for the execution of each and every transaction executed through its terminals. It is mandatory for any entity being in the business of brokerage to ensure the validity and genuineness of its clients and the trades being executed through its terminals.
15. After a detailed and thorough perusal of facts and the contentions and averments made by the Representatives of Respondent during the course of hearing, it is evident that the Respondent showed negligence in conduct of its business and was unable to detect/ scrutinize the abnormal trading executed through its terminals. Moreover, the transactions in question executed through the Respondent resulted in price inflation and generation of artificial volumes in the Scrips, thus created false market. Being in the business of brokerage, it was mandatory on the Respondent to execute its business with due care and skill and to put in-place proper systems and controls to ensure that its business is conducted according to the law.



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

Continuation Sheet - 7 -

16. Keeping in view the aforementioned, it is established that the Respondent being a broker during the period under review, failed to abide by Rule 12 of the Brokers Rules and has violated Clause A1, A2, A4 and A5 of the Schedule III of the Brokers Rules punishable under Section 22 of the Ordinance.
17. The violation committed by the Respondent is a matter of grave concern, however, in view of the poor financial condition of the Respondent and in order to enable it to satisfy all outstanding investor's complaints a lenient view in the matter is being taken. Therefore, in exercise of the powers under Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 10,000/- (Rupees Ten Thousand only).
18. 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.
19. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent and its clients in accordance with law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.


Imran Inayat Butt
Director/HOD (MSCID)

Announced on April 13, 2012
Islamabad.