



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SECURITIES MARKET DIVISION

Before the Joint Director (Securities Market Division)

In the matter of Show Cause Notice dated April 03, 2009 issued to
Ghani Osman Securities (Private) Limited

Date of Hearing:

April 14th, 2009

Present at the Hearing

Representing Ghani Osman Securities (Private) Limited

- (i) Mr. Capt (R) Asim Malik - Director
- (ii) Mr. Faisal Yakoob - Director

Assisting the Joint Director:

- (i) Mr. Adnan Ahmed - Assistant Director
- (ii) Mr. Ahsan Aslam - Assistant Director

ORDER

1. This order shall dispose of the proceedings initiated by the Securities & Exchange Commission of Pakistan (**"the Commission"**) under section 22(1) of the Securities and Exchange Ordinance, 1969 (**"the Ordinance"**) against Ghani Osman Securities (Private) Limited (**"the Respondent"**) in the matter relating to non-compliance of Regulations for Short Selling under Ready Market, 2002 of the Karachi Stock Exchange (Guarantee) Limited (**"the Regulations"**).
2. The Respondent is a member of the Karachi Stock Exchange (Guarantee) Limited and is registered with the Commission under the Brokers and Agents Registration Rules, 2001.
3. Brief facts of the case are that upon scrutiny of the trading data available with the Commission in the scrips of National Bank of Pakistan Limited (**"NBP"**), MCB Bank Limited (**"MCB"**), Pakistan State Oil Limited (**"PSO"**) and Oil & Gas Development Company Limited (**"OGDC"**), the Commission observed the following:
 - a. A client of Respondent, Pakistan Hotel Developers Limited (**"PHDL"**) as on February 09, 2009 started selling shares of NBP at 9:35:25 without having pre-existing interest; maximum short of 19,500 shares at 13:12:58 and subsequently squared its position at 13:41:06 by purchasing these shares and made a gain of Rs. 22,055. At the same day, PHDL also started selling shares of MCB at 12:48:08 without having pre-existing interest and maximum short of 20,000 at 13:11:35 and subsequently squared its position at



13:11:35 by purchasing the said shares and made a gain of Rs. 17,675. On the same day PHDL also started selling shares of PSO at 10:48:03 and maximum short of 39,700 shares at 22:29:11 and afterwards squared its position by purchasing these shares at 14:16:64 and made a gain of Rs. 53,355.

- b. On February 10, 2009 it was observed that Respondent's another client namely Ms. Khadija Batool ("KB") started selling shares of OGDCL at 10:47:56 and maximum short of 20,000 shares at 10:47:56 and then squared her position by purchasing these shares at 10:55:04 and made gain of Rs.859.
- c. Further, on February 09, 2009 Respondent's two other clients namely Mr. Muhammad Adeel ("MA") and Ms. Erum Kamran ("EK") also made blank sale. Mr. Adeel started selling shares of NBP at 14:08:51, maximum short of 10,000 shares 14:31:25 and subsequently squared his position at 14:50:53 by purchasing these shares and made a gain of Rs.8,066. EK started selling shares of NBP at 09:30:18, maximum short of 10,000 shares at 09:33:30 and subsequently squared her position at 09:37:12 by purchasing these shares and made gain of Rs.4,730.

4. Based on the available records with the Commission, it was prima facie transpired that the above referred clients have made blank selling of 139,200 shares in different scrips and made a profit of Rs.126,740. In order to probe this matter, the Respondent was advised to submit the following information:

- Consolidated buying and selling trading information of the clients;
- Copies of pre-existing interest on the respective dates;
- Complete back office record of clearing and settlement such as client ledger and other relevant documents for February 09, 2009 and February 10, 2009.

5. In response, the Respondent submitted the aforementioned information on March 03, 2009. The information submitted was counter checked and was found concurrent with records available with the Commission.

6. Further, upon analysis of the information provided by the Respondent, the Commission noted that at the time of sales, the clients did not have any pre-existing interest in the respective shares.

7. Based on the aforementioned, a show cause notice No.SMD-SOUTH/SS-01(1216)2009 dated April 03, 2009 ("the Notice") was issued under Section 22 of the Ordinance read with Rules 8(a) and 8(b) of the Brokers Rules, asking the Respondent to explain in writing within seven

A handwritten signature in blue ink is located at the bottom right of the page, overlapping the page number.



days from the date of the issuance of Notice and appear before the Joint Director in person on April 14, 2009 that why the Commission should not impose a penalty in the matter.

8. The Respondent submitted written replies to the Notice vide letters dated April 10, 2009, April 20, 2009 and April 21, 2009. A summary of the contentions raised by the Respondent in the written submissions are as follows:

- a. The Respondent admitted that 2 instance of blank sales i.e. Muhammed Adeel and Erum Kamran were a result of error.
- b. With respect to sale of Khadija Batool, the Respondent informed that on behalf of Farida Yakoob, Khadija Batool sold 40,000 shares of OGDC through her account and she had letter of authority of Mrs. Farida Yakoob to operate her account.
- c. With respect to the sale of PHDL, the Respondent informed that Mr. Bajwa, who is the director of PHDL, is currently hospitalized and he will submit his comments upon release from hospital.
- d. The Respondent informed that they have pledged the shares of their clients with KSE and they already had taken authorities in account opening form.
- e. The Respondent contended that they warned all of his clients/ KATS operators to be more vigilant in future.

9. The hearing was held on Tuesday, April 14, 2009 at 11:00 a.m. which were attended by Asim Malik and Faisal Yakoob ("**Representatives**") on behalf of the Respondent. The following arguments were made by the Representatives during the course of hearing:

- a) The Representatives reiterated the Respondent's stance already submitted to the Commission vide letter dated April 10, 2009 that all of its identified clients had pre-existing interest in the said scrips, in fact, their shares were pledged with KSE except for PHDL.
- b) While clarifying the position of PHDL, the Representatives informed that Mr. Baweja who holds directorship in PHDL, is a high net worth individual and remained actively involved in trading with the brokerage house. As far as the orders under discussion are concerned, these were placed on his instructions while he was present in the brokerage house and KATS operator was in the impression that Mr. Baweja has requisite holdings in PHDL CDC account.
- c) The Representatives also informed that they are unable to contact Mr. Baweja subsequent to the Notice because he is hospitalized due his prolonged illness. So if

was very difficult for us to ask him about his holding position as he sold large quantities of shares and tendered the deliveries after removal of floor from stock exchanges.

10. In view of what has been discussed above, and considering the arguments presented before me in writing, as well as at the time of hearing having perused the documents and information placed on record, I am of the view that the Respondent had indulged in selling the shares without pre-existing interest, because evidences were not provided by the Respondent to support its claim that pledged shares were of its client's and also failed to provide the proof of pre-existing interests of its client namely Pakistan Hotel Developers, and further admitted that instance of blank sales i.e. Muhammed Adeel and Erum Kamran were a result of error.
11. Therefore, it has been proven beyond any doubt that the Respondent had indulged in activities that are in violation of the Regulations. By violating the provisions of the Regulations, the Respondent has contravened section 22 of the Ordinance. In terms of section 22(1) (c) of the Ordinance, if a person contravenes or otherwise fails to comply with the provisions of any regulations made under the Ordinance, the Commission may, impose a penalty not exceeding Rupees Fifty Million and in the case of a continuing default, a further sum calculated at the rate of Rupees Two Hundred Thousand for every day after the issue of such order during with the refusal, failure or contravention continues.
12. Given the above, I am inclined, instead of imposing the maximum penalty under section 22 of the Ordinance, to take a lenient view in the matter and impose a fine of Rs. 150,000. I would further direct the Respondent to ensure that full compliance is made of all the rules and regulations in future.
13. The matter is disposed of in the above manner and Respondent is directed to deposit the fine in the account of the Commission being maintained with designated branches of MCB Bank Ltd not later than thirty (30) days from the receipt of this order and furnish the copy of the deposit challan to the undersigned.



Mateenullah Khan
Joint Director
Securities Market Division

Announced on July 1, 2009
Karachi