



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)

Before The Director (Securities Market Division)

In the matter of Show Cause Notice issued to

N.U.A. Securities (Private) Limited

Date of Hearing:

March 06, 2009

Present at the Hearing

Representing the N.U.A Securities

(i) Mr. Imroz Alam

Assisting the Director (SMD)

(i) Mr. Mateenullah Khan

Joint Director

(ii) Mr. Adnan Ahmed

Assistant Director

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice bearing No.1 (01) / Wash/KSE /MSW/SMD/2009/05 dated February 20, 2009 ("the SCN") issued to N.U.A. Securities (Private) Limited ("the Respondent"), Member of the Karachi Stock Exchange (Guarantee) Limited ("KSE"), by the Securities and Exchange Commission of Pakistan ("the Commission") under the Section 22 of Securities and Exchange Ordinance, 1969 ("the Ordinance") and under 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 for January 01, 2009 and January 05, 2009 it was observed that the Respondent's client Mr. Muhammad Iqbal Hashim ("the Client") bought and sold 514,500 shares of Al-Abbas Cement Industries Limited ("AACIL") and 79,500



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shares of PACE Pakistan Limited ("PACE") in such a way that his orders for buy and sell matched with each other and did not result in any change in its beneficial ownership.

3. It has been noted that on January 01, 2009 the Client first placed order for purchase of 514,500 shares of AACIL through his client code "2445" and then placed order for sale of the AACIL shares through his client code "2445" whereas on January 05, 2009 the Client placed order for purchase of 79,500 shares of PACE through his client code "2445" and then placed order for sale of shares of PACE through his client code "2445" simultaneously as a result the Client's buy orders matched with his own sell orders. The Commission vide its letter dated January 16, 2009 advised Respondent to provide comments, along with documentary evidence to clarify its position in the matter. The Respondent vide letter dated January 22, 2009 stated that the execution of orders was made due to misunderstanding between KATS operator and the Client and due to these transactions a warning letter has been issued to KATS operator. After perusal of the Respondent's reply to the above mentioned letter, it was noted that the same did not adequately explain the position of the Respondent in respect of the above mentioned instances.
4. Accordingly, the SCN dated February 20, 2009 was issued to the Respondent. 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 on March 05, 2009. The Respondent vide its letter dated February 25, 2009 requested the Commission to fix the hearing at Karachi instead of Islamabad. Subsequently, the hearing was held on March 06, 2009, at Karachi which was attended by Mr. Imroz Alam ("the Representative of the Respondent") on the behalf of the Respondent.
5. The Respondent vide its written reply dated February 25, 2009 and the Representative of the Respondent during the course of hearing stated that it was simply a human error and they did not obtain any benefit or manipulated the market from the said trades. He further stated that at the time of execution of order unfortunately the same KATS operator was not available and the order was executed by another KATS operator. The Representative of the Respondent was reminded that it is the responsibility of the Respondent to follow the rules and regulations. As a market participant, it is the obligation of the Respondent to protect the interest of investors and to ensure fair, efficient and transparent market. The Representative of the Respondent replied that currently they don't have any system to stop



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such type of transactions automatically however they are working on it and the company has been following all the relevant rules and regulations in the past and assured that such discrepancy will not occur in future. The Representative of the Respondent prayed that keeping in view the aforementioned arguments of the Respondent, the Commission may take a lenient view in this matter.

6. After a detailed and thorough perusal of facts, written submissions of the Respondent and averments made by the Representative of the Respondent during the hearing, it is evident that the Respondent has executed the wash trades on its Client's behalf without due care and diligence in the scrip of AACIL and PACE, thus violating the code of conduct laid down under the Third Schedule of the Broker Rules which in turn is a violation of the Broker Rules. The Respondent's argument that the same was result of mistake by its KATS operator but not intentional, does not absolve the Respondent from the violation of rules and regulations. Principally, the Respondent is responsible for each and every trade executed through its terminals. Therefore, it is the responsibility of the Respondent to put proper systems and controls in place to ensure that each order placed through its terminal does not violate any applicable rules and regulations of KSE and instructions issued by the Commission from time to time.
7. Considering the above facts and the contentions of the Respondent, it is established that the Respondent has executed wash trades in its Client's account. The execution of the trades in question shows that the Respondent has failed to conduct its business with due diligence, care and has interfered in smooth and fair functioning of the market. It was Respondent's responsibility to keep its KATS operators updated with the applicable rules and regulations to avoid any violation of the same. Therefore, keeping in view the aforementioned it is evident to me that the Respondent by executing the trades in question has violated Clause A2 and A5 of the Code of Conduct contained in the Third Schedule of the Broker Rules which in turn is a violation of Broker Rules.
8. In light of the above facts, that the Respondent by executing wash trades has violated the Broker Rules and Code of Conduct thereby, attracting Rule 8 of the Broker Rules and Section 22 of the Ordinance. The violation of the Broker Rules is a serious matter which entitles the 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



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will be more careful, I am taking a lenient view by imposing a fine of Rs. 50,000 (Rupees Fifty Thousand only) to the Respondent under Section 22 of the Ordinance. This sum of Rs. 50,000 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 in the future for avoiding any punitive action under the law.

Imran Inayat Butt
Director
Securities Market Division

Announced on April 03, 2009
Islamabad