



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)

Before The Director (Securities Market Division)

In the matter of Show Cause Notice issued to

Fairtrade Capital Securities (Private) Limited

Date of Hearing:

November 04, 2010

Present at the Hearing:

Representing the Fairtrade Capital Securities (Private) Limited:

(i) Mr. Abdul Rahman

Manager Accounts

Assisting the Director (SMD)

(i) Kapeel Dev

Assistant Director (SMD)

ORDER

1. This order shall dispose of the proceedings initiated through Show Cause Notice ("the SCN") bearing No. SMD-South/MSI/INV/2010 dated October 13, 2010 issued to Fairtrade Capital Securities Private Limited ("the Respondent") by the Securities and Exchange Commission of Pakistan ("the Commission") under Section 22 of the Securities and Exchange Ordinance, 1969 ("the Ordinance") for contravention of Code of Conduct prescribed in the Third Schedule of the Brokers and Agents Registration Rules, 2001 ("the Brokers Rules") read with rule 12 of the Brokers Rules and Section 5A of the Ordinance.
2. The brief facts of the case are that the Respondent is a member of the Karachi Stock Exchange (Guarantee) Limited ("KSE") and is registered with the Commission under the Brokers Rules. After examination of the Karachi



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Automated Trading System ("KATS") data from June 01, 2010 to August 30, 2010 it was noted that the Respondent has not properly entered clients codes for execution of inter-exchange trades in various scrips on behalf of clients of Lahore Stock Exchange (Guarantee) Limited ("LSE") members.

3. The Commission vide its letters dated September 20, 2010 sought clarification from LSE members namely MAHA Securities (Pvt.) Limited, Pearl Brokerage (Pvt.) Limited, Millennium Brokerage (SMC-Pvt) Limited and Equity Master Securities (Pvt.) Limited regarding their trading with the Respondent and invited their attention towards LSE notice number 607 dated July 14, 2008 and National Clearing Company Pakistan Limited ("NCCPL") circular no. NCCPL/CM/JULY-08/04 dated July 01, 2008, wherein it was made mandatory for all LSE members to ensure registration of Unique Identification Numbers ("UIN") of their clients in the National Clearing and Settlement System ("NCSS") before July 20, 2008 for execution of Inter-exchange trades / transactions. The above mentioned LSE members in their respective replies stated that they have registered all their clients as the inter-exchange clients in the NCSS as per the instructions of LSE and NCCPL and further obligation is at the end of the Respondent.
4. The Commission vide its letter dated October 04, 2010 advised the Respondent to provide its comments and documentary evidences to clarify its position in the matter. The Respondent through its letter dated October 08, 2010 made the following submissions:

"You would appreciate that the matter had already been taken up by the SECP and been promptly answered by our letter dated May 31, 2010, where we explained the underlying facts regarding inadequacy being faced by us. There have certain technical issues we struggled here and it was due to lack of adequate expertise and failure of the systems then functioning that unnecessary time lapsed in proper implementation of correct software. These



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lapses however been surpassed finally and, you would appreciate, that all trades are now being conducted in accordance with the applicable rules and regulations”.

5. The aforementioned reply of the Respondent was not considered satisfactory as it did not contain any cogent reason, explanation, evidence or justification regarding the execution of the clients trading in the Proprietary Accounts of LSE members.
6. Accordingly, the SCN 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 hearing was fixed at the Commission’s Karachi office on October 26, 2010. However, the date of hearing was rescheduled and subsequently, the hearing was held on November 04, 2010 at the same venue which was attended by Mr. Abdul Rahman (“**the Representative of the Respondent**”) on behalf of the Respondent.
7. The Respondent in its written reply to the SCN made certain assertions that were reemphasized by the Representative of the Respondent during the course of hearing. A summary of the arguments presented before this forum is as follows:

a) The Respondent hired the services of IT expert named Catalyst IT Solution (Pvt.) Limited (“**Consultant**”) and they started working on the project on April 29, 2010. The Consultant assured the Respondent that the system would be operational from June 01, 2010. However, system could not be fixed on the given deadline due to the hardware issues; therefore, Respondent has to made necessary hardware changes for fixing the system.



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- b) The demonstration of Software was given by the Consultant on June 18, 2010 and subsequently training was arranged for the employees. Finally Software was installed on July 15, 2010 and parallel trading was started since July 15, 2010 to August 19, 2010. The system is working properly since then and all the trades of clients of LSE members are being conducted through their inter-exchange UIN.
8. The Respondent in its written reply and during the course of hearing argued that all the inter-exchange trades were conducted through UIN since August 19, 2010. This however, is not the case as is evident from KATS data which shows that the Respondent kept on entering trades through Proprietary UIN's of LSE members till September 30, 2010.
9. I have perused the written reply of the Respondent and considered the arguments presented before me during the hearing, further the record has also been examined. It is important to accentuate on the point that in order to have the fair, efficient and transparent market it is critical that every trade executed at a stock exchange should be tracked to recognize the true identity of beneficial owner. This is the reason why checks and balances have been put in place by the regulatory framework and strict duty is placed upon the Respondent to adhere to it. The acts of the Respondent to execute the client's trading in Proprietary Accounts of LSE members are contra to the provisions of the legal framework engrained in the Code of Conduct prescribed under the Ordinance read with the Brokers Rules. It is also the responsibility of the Respondent to put the system and controls in place to ensure that each trade executed on its behalf does not violate any provision of laws applicable to its business.
10. At this juncture, it is pertinent to mention that the Commission had earlier sought clarification from the Respondent regarding the execution of the clients trading in the Proprietary Accounts of LSE members during the month of May



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2010, wherein the reply of the Respondent was not considered satisfactory. Therefore, Commission vide its letter dated July 06, 2010 strictly warned the Respondent to abstain from trading in such manner in future failing which appropriate action will be taken against it.

11. Considering the above facts, it is established that the Respondent has executed the client's trading of LSE members in their Proprietary Accounts. The execution of above-mentioned trades shows that the Respondent has failed to maintain high standard of integrity and fairness in conduct of its business. Moreover, the Respondent has failed to comply with specific directive issued by the Commission. Therefore, keeping in view the aforementioned, it is evident that the Respondent by executing the trades as aforementioned has violated clause A1 A2, A5 and D 1(2) of the Code of Conduct contained in Third Schedule prescribed under Section 5A of the Ordinance read with Rule 12 of the Broker Rules, thus attracting the penal provisions of Section 22 of the Ordinance.
12. The violation of the aforementioned provisions of law is a serious matter, however, in view of an express assurance communicated by the Representative of the Respondent of complete conformance of applicable laws in future by the Respondent, I am constrained to take a lenient view. Therefore, in exercise of powers under Section 22 of the Ordinance, I am imposing fine of Rs 50,000 (Rupees Fifty Thousand only) on the Respondent. Additionally, I strongly advise the Respondent to take immediate measures and put in place proper checks and procedures to eliminate the occurrence of such instances in future. I also direct the Respondent to ensure full compliance of all the laws applicable to it and directives of the Commission in the future for avoiding any serious punitive action under the law.
13. 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



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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.

14. The order is being issued without prejudice to any or all actions that may be required to be taken under the Law against the Respondent, its individuals director(s)/officer(s) or any other person involved in violation of any other rules and regulations which may have been committed.

Imran Inayat Butt
Director (SM)

Announced on November 26, 2010
Islamabad.