



Through Courier

Before The Director/HOD (MSSID)

In the matter of Show Cause Notice issued to

Mr. Muhammad Ali Ansari, Chief Financial Officer of Hascol Petroleum Limited

Date of Hearing:

January 28, 2015

Present at the Hearing:

Representing Mr. Muhammad Ali Ansari

i) Mr. Muhammad Ali Ansari

Chief Financial Officer, Hascol
Petroleum Limited

Assisting the Director/ HOD (MSSID)

i) Mr. Aoun Abbas Zaidi

Assistant Director, MSSID

ORDER

1 This order shall dispose of the proceedings initiated through Show Cause Notice bearing No. 1(57)/Hascol/MSW/SMD/2014 dated September 19, 2014 ("SCN") issued by the Securities and Exchange Commission of Pakistan ("Commission") under Section 22 of the Securities and Exchange Ordinance, ("the Ordinance") to Mr. Muhammad Ali Ansari ("the Respondent"), Chief Financial Officer of Hascol Petroleum Limited ("HPL").

2. The brief facts of the case are that the Respondent is the Chief Financial Officer of HPL and during the Book Building Process ("BBP") of HPL it was noted that the Strike Price of HPL was discovered at Rs. 56.50 with a significant increase of 182.5% against the Offer Price of Rs. 20.00. BBP data was procured from the relevant authorities and it was observed that some of the individuals and institutions frequently raised their bid price soon after discovery of strike price, leading to impression of manipulating the Strike Price, therefore, an inquiry was initiated into the matter through inquiry order dated March 26, 2014.

3. Upon analysis of the relevant documents and data, the Enquiry Officers, observed that mother of the Respondent had placed an initial bid for 1,428,833 shares, which constituted 7.62% of the total shares offered through the BBP. However, 714,000 shares were allocated to her through the BBP. Further, it was noted from her Account Opening Form that she opened her trading account with AKD Securities (Private) Limited ("AKD") on February 19, 2014 before the BBP of HPL. Therefore, suspicion was raised that the respondent, *prima facie*, has indulged in violation of clause 3.11 of the Book Building Guidelines of the Listing Regulations.



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4. The Respondent and his mother were required by the Enquiry Officers to appear before them on May 22, 2014 for recording of statement under Section 32 of the Securities and Exchange Commission of Pakistan Act, 1997, during which the Respondent apprised the Enquiry Officers that he placed bids in the BBP through his mother's account on behalf of himself, his relative and his colleagues while his mother had no control over operation of her account. He also apprised the Enquiry Officers that the management of HPL knew about his participation in the BBP of HPL.

5. Further, AKD vide letter dated July 24, 2014 was required to clarify its position regarding the participation of the Respondent from his mother's account for 7.62% of the total shares offered through the BBP of HPL, as it was 2.62% more than what the associated / related persons were allowed to bid for. AKD, vide letter dated August 05, 2014, apprised the Commission that they had no knowledge of participation of the Respondent from his mother's account. Further, they provided a copy of list of associated / related persons received from HPL, in which the Respondent is listed as an associated / related person. Clause 3.11 of the Book Building Guidelines of the Listing Regulation stated that "*An associated person or any other related person or party of the issuer / offerer, as the case may be, shall not make bid(s) for shares in excess of 5% of the Book Building portion of the issue / offer*".

6. The SCN was issued to the Respondent on September 16, 2014 in which he was asked to submit a written reply within fifteen days from the date of SCN. The Respondent submitted written response to the SCN, vide letter dated September 29, 2014. The Respondent in his reply apprised that the bid was made in the name of his mother and he was under the impression that she is not an associated person as per the list submitted to the Commission. He further requested the Commission to consider the fact that the violation was an honest mistake and was not a willful act, hence, mistake and / or discrepancy, if any, on his part may be condoned and a lenient view may be taken.

7. A number of hearings in the matter were fixed but adjourned on the request of the Respondent. Finally, a hearing in the matter was fixed on January 28, 2015 at the Commission's

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Karachi Office. The hearing was attended by Mr. Muhammad Ali Ansari ("Chief Executive of the Respondent") who submitted the same stance which was taken in the letter dated September 29, 2014 in reply to the stated SCN and conceded that the requirements of clause (3.11) of the Book Building Guidelines of the Listing Regulations were not followed.

8. After a detailed and thorough perusal of facts, written submission of the Respondent and contention made by the Respondent during the course of hearing, it is evident that the Respondent placed a bid in excess of 5% of the Book Building portion of the issue through his mother's account of which his friends / colleagues, relatives and himself are the beneficial owners. The restricted participation of associated / related parties of the issuer in excess of 5% has been clearly provided in the book building guidelines. This restriction is of prime importance as it avoids the conflict of interest that exists between the issuer and its associates, as associates have a bias towards the issue which they are close to. This restriction envisages that the price of the security to be discovered through book building should be discovered by independent market participants and the associated persons should not drive the price discovery. The price discovered in the ready market by the independent market players depicts a more accurate price of the security. In the instant case, it has been observed that the respondent has increased the bid price soon after discovery of strike price. The Respondent revised the bid around 12 times, each at a higher price than the strike price, as can be seen from table 1.1 below.

Table 1.1:

Date	Time	Order Type	Price	Volume	Value	Activity	Prevailing Strike Price
4-Mar-14	9:54:47	Limit Order	30.00	1,428,833	42,864,990	New	20.00
4-Mar-14	12:12:25	Limit Order	30.50	1,405,377	42,863,999	Change	20.00
4-Mar-14	12:36:51	Limit Order	35.01	1,224,349	42,864,458	Change	20.00
5-Mar-14	10:38:10	Limit Order	100.00	425,000	42,500,000	Change	32.25
5-Mar-14	12:10:51	Limit Order	40.02	1,071,000	42,861,420	Change	35.00
5-Mar-14	14:02:58	Limit Order	42.01	1,020,000	42,850,200	Change	40.00
5-Mar-14	16:05:08	Limit Order	48.19	889,499	42,864,957	Change	42.00
5-Mar-14	16:11:08	Limit Order	50.02	856,786	42,856,436	Change	42.10
5-Mar-14	18:17:05	Limit Order	50.75	843,786	42,822,140	Change	50.05

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5-Mar-14	18:38:50	Limit Order	53.01	807,786	42,820,736	Change	52.00
5-Mar-14	18:42:46	Limit Order	55.04	778,786	42,864,381	Change	52.10
5-Mar-14	18:49:24	Limit Order	60.01	714,000	42,847,140	Change	55.00

9. I am of the considered view that the Respondent hid his identity by opening a new account in the name of his mother, just before the BBP of HPL, which clearly shows that the Respondent knew about the requirements of clause (3.11) of the Book Building Guidelines of the Listing Regulations and he deliberately evaded the guidelines and the rules and regulations of the Commission.

10. Unfair trading practices damage market integrity and efficiency. The Respondent being the Chief Financial Officer of a listed company should have acted professionally and if he wanted to participate in the BBP then he should have done so on his own name and within the limits prescribed in the Book Building Guidelines. I am further of the view that the Respondent, who had a clear conflict of interest being an associated person, created a misleading impression in the market by participating in the BBP for more than what he was allowed to do so and placed bids at a much higher price than the prevailing strike price, each time playing his role in ramping up the strike price, as can be seen from the table 1.1 above. The respondent has made himself liable under the provisions of Section 22 of the Ordinance which provides that if any person contravenes or otherwise fails to comply with the provisions of this Ordinance or any rules or regulations made thereunder, the Commission may, if it is satisfied after giving the person an opportunity of being heard that the contravention was willful, by order direct that person to pay to the Commission by way of penalty such sum not exceeding fifty million rupees as may be specified in the order.

11. In light of the above and in exercise of the powers under Section 22 of the Ordinance, I hereby impose on the Respondent a penalty of Rs. 1,000,000/- (One Million Only) for the contravention of the provisions of clause 3.11 of the Book Building Guidelines of the Listing Regulations. I further direct the Respondent to ensure full compliance 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 as mentioned in paragraph 11 above, in the account of the Commission being

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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.

Abid Hussain
Director/HOD (MSSID)
Announced on January 29, 2015
Islamabad.