

Through Courier

Before The Director/HOD (MSSID)
In the matter of Show Cause Notice issued to
Surmawala Securities (Private) Limited

Date of Hearing:

October 02, 2014

Present at the Hearing:

Representing Surmawala Securities (Private) Limited

i) *Mr. Muhammad Munaf*

*Director, Surmawala Securities
(Private) Limited*

ii) *Mr. Muhammad Owais*

*Compliance Officer, Surmawala
Securities (Private) 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 July 24, 2014 ("**SCN**") issued by the Securities and Exchange Commission of Pakistan ("**Commission**") under Brokers and Agents Registration Rules, 2001, ("**the Brokers Rules**") to Surmawala Securities (Private) Limited ("**the Respondent**").
2. The brief facts of the case are that the Respondent is a member of Karachi Stock Exchange (Guarantee) Limited ("**KSE**") and is registered with the Commission under the Brokers Rules. During the Book Building Process ("**BBP**") of Hascol Petroleum Limited ("**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.



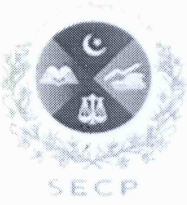
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3. Upon analysis of the relevant documents and data, the Enquiry Officers observed that the Respondent had placed an initial bid for 314,000 shares, which constituted 1.67% of the total shares offered through the BBP; however 88,000 shares were finally allocated by the end of the BBP. It was observed from the Off-Market data that the Respondent transferred 88,000 shares to its clients through various transactions; therefore, it was advised vide letter dated May 27, 2014 to submit the Account Opening Forms along with all enclosures and trading ledgers of its clients to whom shares of HPL were transferred through Off-Market transactions. The Respondent submitted the requisite information vide letter dated June 02, 2014.
4. It was observed from the information received from the Respondent that all the clients had made deposit of funds into their accounts which are commensurate with the shares of HPL transferred to them through the Off-Market transactions. Therefore, suspicion was raised that the Respondent, *prima facie*, has indulged in consolidation of bid.
5. In light of the aforementioned, the SCN was issued to the Respondent. The Respondent was asked to submit a written reply within fifteen days from the date of the SCN. The Respondent submitted its written response to the SCN, vide letter dated September 24, 2014, stating that a bid was placed in the BBP through proprietary account on behalf of the clients in order to facilitate the small investors, however, it was done unintentionally due to non-awareness of legality of this consolidated bid.
6. Subsequently, a hearing in the matter was fixed on October 02, 2014 at the Commission's Karachi Office. The hearing was attended by Mr. Muhammad Munaf ("Director of the Respondent") and Mr. Muhammad Owais ("Compliance Officer of the Respondent") who submitted the same stance which was taken in the letter dated September 24, 2014 in reply to the stated SCN and conceded that the requirements of clause (2.2) of the prospectus was not followed.

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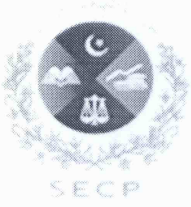


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7. After a detailed and thorough perusal of facts, written submission of the Respondent and the contention made by the Respondent during the course of hearing, it is evident that the Respondent placed a consolidated bid during the BBP of HPL on behalf of its clients. The matter was of prime importance keeping in view the sensitivity of scrip of HPL in terms of its subsequent impact on the market statistics. Book Building system has been introduced in Pakistan Capital Market in order to discover the price of particular scrip by high net worth individuals and institutions through a transparent mechanism based on demand for that scrip. BBP gives privilege to investors to arrive at a price based on the quality and quantity of the bids given by the investors having more knowledge about the scrip and have more risk appetite, compared to retail investors. The price discovered through the BBP leaves enough space for retail investors to invest in the scrip bringing more liquidity in the stock market resulting in better returns for the market investors at large. The Respondent placed bids in the BBP of HPL on behalf of retail investors, having less market research and risk appetite as evident from the response, and thus defeated the spirit of price discovery. I am of the considered view that if small retail investors would have not participated in the BBP, as a herding behavior was evident from their participation, the price would not have reached at such a high level.
8. The Respondent being a corporate member should conduct its business with diligence and ensure full compliance of the laws and relevant rules and regulations. It is prime responsibility of the Respondent to monitor all trading activities being carried out through its brokerage house and keep track of any transaction which is being made with a view to create any misleading impression or is in violation of the law.
9. In the instant case, the Respondent has admitted its default for violating clause 2.2 of the prospectus of HPL in respect of consolidation of bid. Keeping in view the admittance by the Respondent and the fact that the Respondent has shown their intention to ensure compliance with the provisions of laws in future, I hereby take a lenient view and instead of

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imposing fine issue a stern warning to the Respondent. Further, I also direct the Respondent to ensure full compliance of all rules, regulations and directives of the Commission in the future.

Abid Hussain
Director/HOD (MSSID)

Announced on October 24, 2014
Islamabad.

Copy to: Surmawala Securities (Private) Ltd,
635 - 636, 6th Floor, Stock Exchange Building,
Stock Exchange Road,
Karachi.