



# ***D.J.M SECURITIES LIMITED***

**TREC Holder : The Pakistan Stock Exchange Limited.**

Tariq Qureshi  
Secretary  
Appellant Committee  
Pakistan Stock Exchange

13<sup>th</sup> September, 2022

Subject: Order Dated 02-09-2022 Passed By Appellant Committee Constituted By The Board Of PSX

Dear Sir,

We, DJM Securities Limited, are enclosing the cheque of 65,050/- with the letter for the above mentioned order passed by the committee. We will appreciate your acknowledgement of receiving for the same. Thank you.

Regards,

Abdul Samad Dawood



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## PAKISTAN STOCK EXCHANGE LIMITED

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Website: www.psx.com.pk Email: info@psx.com.pk

Ref. No. PSX/ \_\_\_\_\_

TREC-16-1728

September 2, 2022

<b>The Chief Executive Officer</b> DJM Securities Limited, Suit # 203, 2nd Floor, Business & Finance Centre, I.I. Chundrigar Road, KARACHI.	<b>The Chief Regulatory Officer</b> Pakistan Stock Exchange Limited (PSX) Regulatory Affairs Department Stock Exchange Building KARACHI
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Subject: **ORDER DATED 02-09-2022 PASSED BY APPELLANT COMMITTEE CONSTITUTED BY THE BOARD OF PSX IN THE APPEAL FILED BY DJM SECURITIES LIMITED, TREC HOLDER-PSX AGAINST ENFORCEMENT ORDER OF CHIEF REGULATORY OFFICER-PSX**

Dear Sirs,

Please find attached copy of Order dated 02-09-2022 passed by the Appellant Committee constituted by the Board of PSX in appeal filed by DJM Securities Limited against the Enforcement Order dated 26-04-2022 for information/compliance.

Yours sincerely,

**TARIQ QURESHI**  
*Secretary*  
*Appellant Committee*

Cc: Appellant Committee

Encl. As above



**BEFORE THE APPELLANT COMMITTEE CONSTITUTED BY  
THE BOARD OF PAKISTAN STOCK EXCHANGE (PSX)**

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**M/s. DJM Securities Limited, TREC Holder-PSX**

**Appellant**

**V/s**

**Chief Regulatory Officer-PSX**

**Respondent**

**Members of Appellant Committee**

- 1) **Mr. Javed Kureishi**
- 2) **Mr. Asif Mahmood**
- 3) **Dr. Fakhara Rizwan**

**Dates of Hearing:**

**June 13, 2022 (Adjourned at the Appellant's Request)**

**July 25, 2022 (Adjourned at the Appellant's Request)**

**August 18, 2022**

**Venue of Hearing**

**7th Floor, PSX Board Room**

**PSX Admin. Block, Karachi.**

**Present:**

**For Appellant**

- 1) **Mr. Abdul Samad Dawood, Chief Executive Officer**
- 2) **Mr. Dawood Jan Muhammad, Founder-DJM Securities Limited**

**For Respondent**

- 1) **Mr. Ajeet Kumar, Chief Regulatory Officer – PSX**
- 2) **Mr. Adeel Shamsad, Senior Manager, MSD (RAD) - PSX**

**Secretary**

**Mr. Tariq Qureshi**  
**DGM/Unit Head, Litigation & Legal Affairs-PSX**

## **ORDER IN APPEAL**

### **1. PRELIMINARY**

M/s DJM Securities (Pvt.) Limited, a TREC Holder- of PSX (hereinafter referred to as the Appellant), filed this Appeal under Clause 20.4.4 of Pakistan Stock Exchange Regulations (PSX Regulations) against the Enforcement Order dated April 26, 2022 (Impugned Order) passed by the Chief Regulatory Officer (hereinafter referred to as the Respondent/CRO) of Pakistan Stock Exchange Limited (PSX). The Impugned Order imposed an aggregate penalty of PKR.65,050/- (Pak Rupees Sixty Five Thousand Fifty Only). Besides, the Appellant was advised to exercise due care and diligence while placing orders and executing trades in RDCM. It was also advised to ensure that the trades in RDCM are conducted in compliance with the applicable Regulations of PSX and SECP.

### **2. FACTS**

2.1 PSX identified the following sale transactions executed by the Appellant:

(a) 65,000 shares of SMCPL for client code '206' in the Ready Delivery Contracts Market (RDCM) on November 23, 2021.

(b) 10,000 shares of FFL for client code '193' in the RDCM on February 10, 2022.

2.2 Against the transactions mentioned in 2.1(a) and 2.1(b), no pre-existing interest or shares were available in the Central Depository System (CDS), which is a violation of PSX Regulations of Clauses 10.15 concerning the prohibition on blank sales in RDCM.

2.3 The Respondent initiated inquiries for the above cases against the Appellant vide letters dated November 24, 2021, and February 15, 2022, and sought explanations for prima facie violations of Clauses 10.15 of PSX Regulations.

2.4 The explanations provided by the Appellant vide its letters dated November 25, 2021, and February 15, 2022, were not satisfactory. The Appellant failed to provide valid justifications and documentary evidence to substantiate the existence of sufficient pre-existing interest or shares against the transactions.

2.5 Considering prima facie violations of the PSX Regulations, the Appellant was given a hearing opportunity as per Clause 20.4.1 of PSX Regulations and was advised to ensure its representation through Chief Executive Officer or their authorised representative before the Respondent on March 24, 2022.

2.6 On March 24, 2022, Mr. Abdul Samad Dawood, Chief Executive Officer, and Mr. Abdul Ghani Umer, the Appellant's Representatives, appeared and stated the following:

**(a) 65,000 shares of SMCPL for client code 206 in RDCM as on November 23, 2021:**

- i. The client code '206' belongs to the Appellant's proprietary account.
- ii. On November 23, 2021, the Appellant had 2,235,000 shares in its CDC account.
- iii. The order for the sale of shares was placed by the Appellant's CEO, and the KATS operator inadvertently sold the excess shares.
- iv. The KATS operator committed the mistake due to an extensive trading load on him on the relevant trading day.
- v. The excessively sold shares could not be rectified as the Appellant did not have SMCPL's shares in any other account. The excess sold shares were squared in the same account through various buy orders. Squaring at once was not attempted due to low volumes in the security.
- vi. The Appellant did not take serious notice of the trade rectification procedures of PSX as the erroneous trade pertained to a proprietary account. However, the inadvertent excess sale was reported to PSX vide Appellant's letter dated November 23, 2021, i.e. the same trading day.
- vii. The Appellant stated that the trade rectification procedures of PSX will be followed in the future.

**(b) 10,000 shares of FFL for client code 193 in RDCM as on February 10, 2022:**

- i. The client code 193 belongs to an elderly individual client of the Appellant.
- ii. This client also holds shares in the CDC Investor Account, and the Appellant does not have access to such information. Further, the Appellant shall submit the CDC Account Balance Reports for the required dates, i.e. 10th and 11th of February 2022.
- iii. The trading was carried out on the client's instructions. However, the excess shares were inadvertently sold due to miscommunication between the client and the Appellant's KATS Operator.

- iv. The KATS Operator did not realise the mistake, so corrective measures could not be taken due to his negligence.
- v. The Appellant became aware of the mistake only on receiving the PSX inquiry letter.
- vi. The transaction was executed through the FIX terminal on which KITS policies, procedures, and checks were not implemented. Thereafter, the same has been implemented.

2.6A The Appellant further informed that they are shifting clients' trading activities other than institutions and proprietary accounts to KITS terminals, along with implementing proper policies and procedures to avoid such mistakes in the future.

2.7 Based on the scrutiny of the documents and explanations provided by the Appellant during and after the hearing before the Respondent and the circumstances of the identified instances, the following was established:

**(a) 65,000 shares of SMCPL for client code 206 in RDCM as on November 23, 2021:**

- i. The client code '206' belongs to the Appellant's proprietary account.
- ii. On the relevant trading day, the Appellant's proprietary account had 2,235,000 shares in the CDS account.
- iii. It was observed that, at 11:21 AM, three sale orders involving 235,000, 1,000,000, and 5,000 shares were placed at Rs9:25/, which got executed immediately. At this point, the proprietary account had sold 1,240,000 shares against available shares in the CDS account.
- iv. It was further observed that, after considerable time, two sale orders comprising the total volume of 1,060,000 (i.e. 860,000 and 200,000) shares were placed at 2:34 PM against the remaining 995,000 shares available as pre-existing interest. The aforementioned sale orders were executed upon their placement and resulted in an excess sale of 65,000 shares.
- v. The excessively sold shares were squared through various buy orders in the same account in RDCM, due to which loss was realised.
- vi. The Appellant did not opt to rectify the excess sale quantity in accordance with trade rectification procedures notified by PSX but squared the oversold quantity in the same account in RDCM.
- vii. The identified sale volume in the share of "SMCPL" constituted only 1.52% of the total traded volume in the share in RDCM during the day.

**(b) 10,000 shares of FFL for client code 193 in RDCM as on February 10, 2022:**

- i. The client code belongs to the Appellant's individual client.
- ii. On February 09, 2022, the client had a net sell position of 500 shares against 15,000 shares held in the client's CDS.
- iii. On the relevant trading day, i.e. February 10, 2022, the client placed four sale orders against the pre-existing interest of 14,500 shares. Time-wise placement of sale orders is as follows:
  - (i) 9:33 AM: 4,500 shares at Rs9.24/- which got fully executed by 9:39 AM
  - (ii) 9:46 AM: 5,000 shares at Rs9.38/- which got fully executed by 9:48 AM
  - (iii) 9:49 AM: 5,000 shares at Rs9.39/- which was cancelled at 9:53:44AM
  - (iv) 9:53:37AM: 5,000 shares at Rs.9.33/- which got immediately executed

The above placement of orders revealed that the client placed sale orders constituting 19,500 shares which exceeded the pre-existing interest by 5,000 shares. However, one of the sale orders of 5,000 shares was cancelled, as highlighted above. This cancellation indicates that the client wanted to avoid executing a blank sale and therefore cancelled the exact quantity of the sale order which could have constituted a blank sale. At 9:53:37AM, the client had sold the available shares in its CDS account.

The client further placed four buy orders from 9:59 AM to 10:17 AM in the manner as provided below:

- (v) 09:59 AM: 15,000 shares at Rs. 9.59/- which was cancelled at 12:45 PM
- (vi) 10:05 AM: 5,000 shares at Rs9.27/- which got immediately executed
- (vii) 10:05 AM: 5,000 shares at Rs9.27/- which got executed by 10:06 AM
- (viii) 10:17 AM: 5,000 shares at Rs9.25/- which got immediately executed

By 10:17 AM, the client had bought 15,000 shares. After almost 50 minutes, at 11:07 AM, the client placed a sale order of 5,000 shares at Rs9.39/- (which was cancelled at 03:20 PM). Thereafter, at 12:45 PM, the client cancelled the buy order mentioned under iii(v) above and placed another buy order of 5,000 shares at Rs9.22/- which was fully executed by 12:49 PM. At this point, the client had bought 20,000 shares.

After a considerable time, the client started placing sell orders at 3:07 PM in the manner as follows:

- (i) 3:07 PM: 15,000 shares at Rs9.20/- which got immediately executed
- (ii) 3:10 PM: 15,000 shares at Rs9.20/- which got immediately executed

securities broker under the PSX Regulations, and correspondence with PSX has been attached alongside the Memo of Appeal.

### **3.4 Respondent's Rebuttal**

No such attachment was received with the Memo of Appeal dated May 13, 2022.

### **3.5 Appellant's Ground**

The Appellant acted with reasonable cause and in good faith, a widely recognised exception to the imposition of penalties imposed in the impugned order. In several reported cases by superior courts, it has been widely held that the principle of mens rea is an essential ingredient for the constitution of offense and imposition of penalty. Resultantly, no penalty may be imposed concerning any person upon a showing by the person that there was reasonable cause for, and the person acted in good faith with respect to, such portion. It is submitted that the Appellant has complied with every requirement entailed by the PSX Regulations.

### **3.6 Respondent's Rebuttal**

According to the principle of "mens rea" one must possess a guilty state of mind and be aware of their misconduct. It is pertinent to highlight that sometimes an act alone is sufficient to constitute misconduct without the existence of mens rea. Further, in case of findings to the impact of such transactions on the market with malafide intention, such case is thoroughly investigated from the perspective of market manipulation/misconduct for onward submission to SECP under clause 20.5.4 of PSX Regulations. The instant cases are related to breach of Clause 10.15 of PSX Regulations which prohibits blank sales in RDCM. Furthermore, given that the Appellant contravened the provision of Clause 10.15 of PSX Regulation, a fine was imposed after considering all the mitigating factors.

### **3.7 Appellant's Ground**

No outstanding requirements on the Appellant's part were pending at the time of issuance of the show cause notice by the Respondent. Furthermore, the principles of natural justice must be followed in this case not merely as a formality but as a well-meaning and effective law requirement.

### **3.8 Respondent's Rebuttal**

The responses to the inquiries were received within the stipulated timelines set by the Respondent. However, the aforesaid responses were not satisfactory. Therefore, in accordance with Clause 20.4.1 of PSX Regulations, the Appellant was allowed to be heard to explain its stance on the enquired cases.



### **3.9 Appellant's Ground**

It has been held by the Apex Court and the Honourable High Courts that the right to natural justice is read into every statute and proceeding under law. Hence it can be concluded that a right to an effective hearing, right to a proper hearing, adequate opportunity to submit a written and oral response, and a reasoned order are necessary ingredients of a legal proceeding. Any proceeding devoid of the aforementioned rights/process is a nullity in law.

### **3.10 Respondent's Rebuttal**

The Respondent passed the enforcement order after providing the opportunity of being heard as per clause 20.4.1 of PSX Regulations.

### **3.11 Appellant's Ground**

The Exchange may grant an adequate time to submit a sufficient documentary/oral response in light of the enunciations of the Honourable Courts. (Shahid Afzal v. Government of Pakistan through Secretary Education, Islamabad, and 3 others PLD 1977; Dawood Corporation (Private) Limited and another v. The Director General, Department of Supplies, Government of Pakistan, Ministry of Industries, Karachi and 2 others 1988 CLC 788; Joseph Vilangandan v. The Executive Engineer, (PWD.) Ernakulam AIR 1978 SC 930).

### **3.12 Respondent's Rebuttal**

Since the Appellant has filed an appeal against the enforcement order of CRO, the appeal shall be heard and decided by the Appellate Committee constituted by the Board in accordance with clause 20.4.4 of PSX Regulations.

### **3.13 Appellant's Ground**

To set aside the penalty imposed by providing the Appellant with a reasonable opportunity to be heard to address any outstanding matters entailing the provision of information so that the Appellant can submit an appropriate reply and required details. In this regard, a citation of the Supreme Court case of Commissioner of Income Tax v Fazlul Rehman (PLD 1964 SC 410) is referred to where the Court held that parties should be given a proper opportunity and right to appeal and present their side before and the final order was passed against them.

### **3.14 Respondent's Rebuttal**

The Impugned Order was issued after providing a reasonable opportunity of being heard by the Respondent in accordance with Clause 20.4.1 of PSX Regulations. Furthermore,

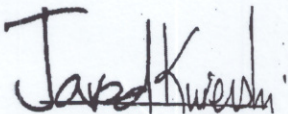
regarding the right of appeal and opportunity to be heard before the final order, Clauses 20.4.4 and 20.4.5 of PSX Regulations provide details of filing of appeal before the Appellate Committee and hearing of appeals by the Appellate Committee before issuing the final order.

**4. DECISION**

At the outset, it is momentous to mention that the Appellant Committee's scope is quite limited, whereby it can revise the Appellant's order. Nevertheless, in the present appeal, the Committee did not find any such justification for interfering in the Impugned Order passed by the Respondent.

The Committee also noted that although PSX Regulations empowered the Respondent to impose a penalty of PKR. 300,000/-, he prudently imposed a rational decreased penalty of an aggregate amount of PKR.65,050/- on the Appellant for the said two non-compliances after carefully considering all mitigating factors of the subject matter. Therefore, the above-referred penalty imposed by the Respondent on the Appellant is already on a minimal side.

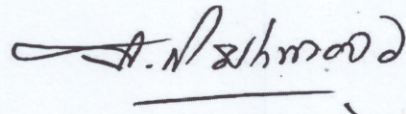
Given the preceding, the Committee did not find any merit in the Appeal and unanimously decided to dismiss it and uphold the Impugned Order. The Appellant is also hereby directed by the Committee to pay the penalty amount within Seven (07) days from the date of receipt of this Order and to act more carefully and vigilantly in the future towards ensuring full compliance with the PSX Regulations.



**JAVED KUREISHI**  
Chairman-Appellant Committee



**DR. FAKHARA RIZWAN**  
Member-Appellant Committee



**ASIF MAHMOOD**  
Member-Appellant Committee

**Dated: September 2, 2022.**