



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Before Commissioner (SCD)

In the matter of Show Cause Notice issued to Al Meezan Investment Management Limited under Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984

Date of hearing:

May 10, 2017

Present:

Al Meezan Investment Management Limited

- i. Mr. Mohammad Shoaib, CEO*
- ii. Mr. Muhammad Asad, CIO*
- iii. Mr. Muhammad Rashid Zafar, Head IA&C*

Assisting the Commissioner (SCD)

- i. Mr. Imran Inayat Butt (Executive Director)*
- ii. Mr. Muhammad Jahangir (Joint Director)*

ORDER

This Order shall dispose of the proceedings initiated against Al Meezan Investment Management Limited (the "Company" or "AMIML") through show cause notice (the "SCN") bearing No. SCD/AD-AMCW/ALMEEZAN/17/42/2017 dated April 19, 2017 under section 282J (1) read with section 282M (1) of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are that Supervision and Enforcement Department (S&ED) of the Securities and Exchange Commission of Pakistan ("SECP") conducted onsite inspection of AMIML. The inspection report dated December 21, 2016 highlighted irregularities regarding investment in the shares of Al Shaheer Corporation Limited (ASC) by AMIML. These irregularities include failure of the Company in recording the reasons and circumstances of not signing the decision of investment in ASC by all the members of the Investment Committee ("IC"). Moreover, it was also mentioned in the inspection report that the purchase order for the said investment in ASC was not placed in accordance with the AMIML's dealing room policy.

3. Consequently, SCN dated April 19, 2017 was issued whereby the Company was called upon to show cause in writing by May 4, 2017 as to why penal action may not be taken for the above-mentioned irregularities and an opportunity of hearing was granted on May 10, 2017. However, on request of the Company, the deadline to submit written reply was extended till May 8, 2017.



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4. In response to the said SCN, the Company submitted written reply. The main arguments put forth by the Company in its written reply are as under:

- i. As a practice, deal ticket is signed by Chief Investment Officer ("CIO")/Fund Manager and Chief Executive Officer ("CEO") in all the transactions. Further, deal ticket is not considered as approval of the IC.
- ii. All requirements regarding regulation 37(3)(d) of the NBFC Regulations have been complied as the required quorum was present in the meeting in which the investment in ASC was analyzed in detail.
- iii. Although the detailed research report regarding ASC was signed by more than two third majority of the members of the IC, however this report and discussion on it were not minuted in the subsequent meeting of IC. It was further submitted that the intended spirit of the Regulation was fully complied with and the Company erred only to the extent of not properly recording the minutes of the IC.
- iv. The Company does not have a formal dealing room policy approved by its Board. In fact, the observation of the internal auditor was regarding the dealing room guidelines, which are developed internally by the management. Further, the issue is already under consideration of the Audit Committee even before the commencement of onsite inspection by the SECP. The Audit Committee and the Board of Directors of the Company have discussed the matter in detail and dealing room policy is being finalized with a view to further strengthen the controls.

5. A hearing in the matter was held on May 10, 2017 which was attended by Mr. Mohammad Shoaib, CEO, Mr. Muhammad Asad, CIO and Mr. Muhammad Rashid Zafar, Head of Internal Audit and Compliance (collectively "the Respondents"). During the hearing, the Respondents made submissions mainly reiterating the earlier written stance. Moreover, it was also submitted by the CEO that all the regulatory requirements are followed in true spirit; however, sometimes minutes are not properly recorded mainly due to the enormous volume of work. Further, he also mentioned that the process of recording minutes of the IC is being made more comprehensive.

6. During the hearing, the Respondents also highlighted that the violation of clause (n)(v) of sub regulation (2) of regulation 38 of the Non-Banking Finance Companies and Notified Entities Regulations ("NBFC Regulations") does not arise as the said regulation was introduced subsequent to the investment in the shares of ASC through amendment notified in the NBFC Regulations vide SRO 1160(I)/2015 dated 25 November 2015.



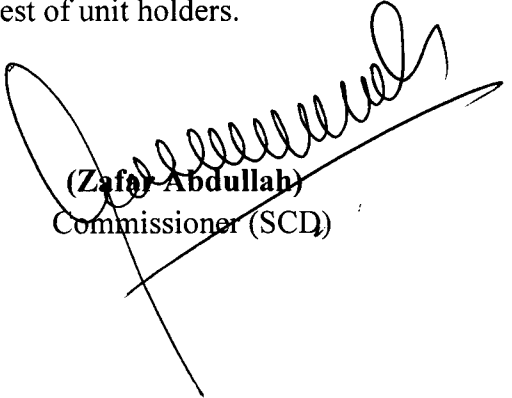
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7. The Respondents further clarified that in order to implement proper controls, macro level parameters are approved by the management of the Company and the fund manager takes decisions in accordance with these parameters. In case of any deviation from these parameters due to any factor beyond control of the Company, the mechanism of post facto approval is applicable.

8. I have examined the facts of the case, relevant regulatory requirements and the arguments put forth by the Respondents in written reply as well as during the course of hearing. I observed that the matter regarding contradiction with the dealing room procedures was initially pointed out by the internal auditor of the Company before the commencement of the onsite inspection. Moreover, the stance of the Company regarding non-applicability of the clause (n)(v) of sub regulation (2) of regulation 38 of the NBFC Regulations, is also valid as the said regulation was promulgated subsequent to the investment made by AMIML in the shares of ASC.

9. Considering the fact that no violation of clause (n)(v) of sub regulation (2) of regulation 38 of the NBFC Regulations is established and the process of recording the minutes of the IC is being made more comprehensive by the Company, I hereby conclude the proceedings initiated under Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984 with the advice that the management of the Company shall continue to follow its policies/procedures for effective controls and their objective implementation to safeguard the interest of unit holders.


(Zafar Abdullah)
Commissioner (SCD)

Announced: May 30, 2017 at Islamabad.