



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: September 28, 2016

Present (on behalf of Al-Meezan): i. Mr. Mohammad Shoaib (CEO)

Assisting the Commissioner (SCD) i. Mr. Imran Inayat Butt (Executive Director)
ii. Mr. Javed Akhter Malik (Joint Director)

ORDER

This Order shall dispose of the proceeding initiated against Al-Meezan Investment Management Limited (the "Company" or "Al-Meezan" or "Respondent") through show cause notice (the "SCN") bearing No. SCD/AD-AMCW/ Al Meezan/03/21/2016 dated September 8, 2016 under section 282J (1) read with section 282M (1) of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are as follows:

- i. The Securities and Exchange Commission of Pakistan (the "SECP" or "Commission") conducted snap checks of the branches of Asset Management Companies ("AMCs") to ascertain compliance with Circular 26 of 2015 especially whether prospective investors are being informed or not by the sales staff about charging of no sales load in case of direct approach to AMCs for making investment in mutual funds.
- ii. Employee of SECP namely Mr. Rizwan Razzak visited Al-Meezan branch located at Shop # G-1, G-2, Ground Floor, Ajwa Residency, Block-L, North Nazimabad, Karachi on August 12, 2016. He sought information from sales representative for making investment in mutual funds and was not informed that sales load shall not be applied to him considering the fact that he has directly approached the Company.
- iii. He opened an account with rupees twenty thousand by investing in Meezan Islamic Fund.
- iv. Al-Meezan deducted front end load (FEL) of rupees three hundred and ninety one and sales tax of rupees fifty one which was shown in the transaction statement sent to him by Al-Meezan.

3. It was construed from the facts gathered that the Respondent, *prima facie*, has not made compliance to the requirement of Circular 26 of 2015. Consequently, the SCN was issued to the Respondent whereby it was called upon to show cause in writing as to why penal action may not be



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Continuation Sheet - 1 -

taken against it for the aforesaid contraventions. In response to the SCN, the Chief Executive Officer (CEO) of the Company through letter dated September 16, 2016 submitted its reply. With reference to contents of the SCN, a brief of submissions of the Respondent are reproduced below:

- i. *It has been shocking for the entire senior management of Al-Meezan that sales load was charged to a customer who approached our branch directly for making investment and is extremely sorry for this omission.*
- ii. *After issuance of Circular 26 of 2015, it was made very clear to the sales team that no sales load can be charged to any investor who approaches the AMC directly.*
- iii. *The Chief Executive of AL-Meezan communicated to the sales team in the recently held annual sales conference of Al-Meezan that any violation of the instructions of SECP will not be tolerated, especially with respect to charging sales load.*
- iv. *The FEL charged from the customer have already been reversed and warning letters to the sales representative and his immediate supervisor have been issued.*
- v. *The matter has been deliberated by the senior management of Al-Meezan and devised the strategy and following additional measures/controls are being introduced on immediate basis to ensure that such errors and omissions are avoided in future:*
 - a) *Refresher training for all sales person and staff at front desk for circulars and notifications of SECP.*
 - b) *Strengthening the role of Service Quality Department (SQD) who will conduct mystery shopping through phone calls and in person.*
 - c) *Random checking of account opening forms by SQD to check any incidence of wrongful charging of sales load.*
 - d) *All account opening forms shall also be signed by the branch manager to ensure that the sales person has not incorrectly charged sales load.*
- vi. *AL-Meezan sincerely apologize to the Commission for the violation of regulatory requirement on the part of the sales representative and humbly request the Commission to take a lenient view on this matter.*

4. A hearing in the matter was held on September 28, 2016 before the undersigned wherein Mr. Mohammad Shoaib (CEO) appeared on behalf of the Respondent and admitted their non-compliance to Circular 26 of 2015 and requested for a lenient view. The CEO made verbal submissions mainly reiterating the earlier written submissions. The CEO also agreed on taking following additional measures apart from those mentioned at Para 3 (v) above which would also act as deterrence so that such non compliances should not occur in future:

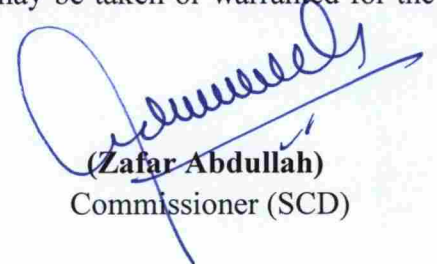
- i. Ensuring that standees and banners regarding non applicability of FEL are prominently displayed in each branch in both Urdu and English languages.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Continuation Sheet - 2 -

- ii. Code of Ethics and Declaration of Responsibility shall be signed by all the sales force that they have understood all the directions of the Commission and onus of any violation on their part may lead to adverse consequences for them.
5. I have analyzed the facts of the case, relevant provisions of the Circular referred and the arguments put forth by the Respondent in writing as well as during the course of hearing. My observations are as under:
- i. The Respondent has admitted that it has not made compliance to the requirement of Circular 26 of 2015.
- ii. Al-Meezan has already refunded the amount of FEL to the investor, reprimanded both the sales staff involved in this transaction and taken the additional measures so that such non compliances should not recur in future.
6. Based on my observation at para 5 above, I am of the view that even though the Respondent has refunded the FEL to the investor, initiated additional controls/measures and given firm commitment to avoid such instances in future, however, leniency on non-compliance towards requirement of Circular 26 of 2015 is not possible as safeguarding the investors' interest is paramount and supreme objective of SECP. Therefore, I hereby conclude the proceedings initiated under section 282J (1) read with section 282M (1) of the Ordinance by imposing an aggregate fine of Rs. 100,000/- (Rupees one hundred thousand only) on the Respondent. Moreover, in exercise of powers conferred under Section 282 D of the Ordinance, I hereby direct the Respondent to submit quarterly reports on the results of additional measures till June 30, 2017.
7. The aforesaid fine must be deposited in the designated bank account maintained with MCB Bank Limited in the name of SECP within seven days from the receipt of this Order and furnish receipted bank challan to SECP. In case of non-deposit of the penalties, proceedings for recovery of the fines as arrears of land revenue will be initiated.
8. This Order is issued without prejudice to any action, which may be taken or warranted for the above said defaults under any other provision of the law.


(Zafar Abdullah)
Commissioner (SCD)

Announced: October 25, 2016 at Islamabad.