



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT
(MODARABA WING)

No. SCD/M/FPM/2018-322

November 13, 2018

1. Syed Wajih Hassan,
Chief Executive, Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
2. Mr. Tanveer Ahmed Magoon, Director, Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
3. Mr. Abdul Razzak Jandga,
Director,
Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
4. Pir Muhammad Kalia,
Director,
Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
5. Mr. Humayun Mazhar Qureshi
Director,
Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
6. Mr. Nadeem Iqbal,
Director,
Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
7. Mr. Hasan Ahammad,
Head of Operations, Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
8. Mr. Khalid Rehman,
Director,
Paramount Investments Limited, Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.
9. M/s. Paramount Investments Limited,
Managers of First Paramount Modaraba, Suite No. 107-108, 1st Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi.

Subject: Order under Section 32 of the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980

I am directed to forward herewith a copy of the Order passed by the Registrar Modaraba dated November 13, 2018 for compliance.

Yours truly,


(SHAHID MAHMOOD)
Additional Director



No. SC/M/PRDD-ADJ/FECM/2018-321
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
POLICY, REGULATION AND DEVELOPMENT DEPARTMENT
MODARABA WING

Order

In the matter of

First Paramount Modaraba
Managed by Paramount Investments Limited

Show Cause Notice No.

SC/M/FPM/2018-264

Dated:

September 27, 2018

Submissions by:

1. Syed Wajih Hassan, Chief Executive in person and on behalf of:

- | | | |
|-------|-------------------------------|----------|
| (i) | Paramount Investments Limited | |
| (ii) | Mr. Tanveer Ahmed Magoon, | Director |
| (iii) | Mr. Nadeem Iqbal, | Director |
| (iv) | Mr. Pir Muhammad Kaliya, | Director |
| (v) | Mr. Abdur Razzak Jangda, | Director |
| (vi) | Ms. Khalid Rehman, | Director |
| (vii) | Ms. Humayun Mazhar Qureshi, | Director |

ORDER UNDER SECTION 32 OF THE MODARABA COMPANIES AND MODARABA (FLOTATION AND CONTROL) ORDINANCE, 1980

This Order shall dispose of the proceedings against Paramount Investments Limited ("the Modaraba Company"), the managers of First Paramount Modaraba ("the Modaraba") its chief executive, directors and officer, initiated vide show-cause notice dated September 27, 2018 ("the Notice") under section 32 of the Modaraba Companies and Modaraba (Flotation & Control) Ordinance 1980 ("the Modaraba Ordinance").

2. Brief background of the case is that a limited scope enquiry into the affairs of Modaraba was conducted under section 21 of the Modaraba Ordinance, 1980. The scope of the enquiry comprised reviewing compliance with the anti-money laundering and counter financing of terrorism regulations, 2018 and relevant regulatory framework. On the basis of the findings of



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the inspectors, the notice was issued to the Modaraba Company, its chief executive, directors and officer. The notice *inter alia*, includes the following violations of the Modaraba regulatory framework:

(i) In terms of sub-para (i) of paragraph 3 of the notice, the Modaraba accepted Musharakah deposits in the form of Certificates of Musharakah (CoM) from Mr. Shaor Ehsan, initially on 5th May, 2014 who was a salaried person. In the year 2017, he made an investment of Rs7,500,000 when his monthly salary was Rs116,740 which did not commensurate with the amount invested. The same investor made further investment of Rs1,800,000 million in the year 2018 when his monthly income was Rs126,079. The inspectors noticed that the Modaraba Company while accepting the aforementioned amounts of investments, had not inquired about his source of funds and classified him as "low risk" investor. This was against the parameters defined for due diligence of an investor as per clause 4 (a) (ii) of the circular 29 of 2009, dated September 09, 2009 ("the Circular") which was issued as an additional condition to modaraba authorization certificate under section 11 of the Modaraba Ordinance, read with clause (e) of sub rule (2) of rule 3 of the Modaraba Rules, which is punishable with a fine not exceeding Rs100,000. Further, the Modaraba Company had not carried out periodic customer review of the investor, which is a violation of clause 6 of the Circular.

(ii) As per sub-para (ii) of paragraph 3 of the Notice, in the year 2015, the Modaraba accepted CoM deposits amounting to Rs3,500,000 from Mr. Muhammad Hussain. Mr. Hussain was a salaried person and at the time of investment, he was drawing a monthly salary of Rs85,620. Subsequently, he made further investments of Rs1,500,000 and Rs2,000,000 in CoM of the Modaraba in the year 2017 and 2018 respectively. In the year 2018, he was drawing a monthly salary of Rs138,070.

The inspector had observed that the amount of investments made by Mr. Muhammad Hussain did not commensurate with his income. Moreover, the Modaraba Company did not inquire about his sources of funds and classified him in "low risk" category, in violation of clause 4(a)(ii) and clause 6 of the Circular, which is punishable under section 32 of the Modaraba Ordinance.

(iii) As per sub-para (iii) of paragraph 3 of the Notice, the Modaraba accepted CoM deposits of Rs2,000,000 from Ms. Humaira Qureshi. At the time of investment, Ms. Qureshi had no employment/business record. She attributed her source of income to her mother. However, in violation of clauses 2(a) and 4(a)(ii) of the Circular, the source of income of her mother was neither inquired nor documented. Moreover, the Modaraba Company classified her investment in "low



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risk" category. It was a violation of clause 6 of the Circular, which is punishable under section 32 of the Modaraba Ordinance.

- (iv) In terms of sub-para (iv) of paragraph 3 of the Notice, Sultana Khatoon Trust invested Rs2,200,000 in CoM deposits of the Modaraba in 2014 for a period of three years. The inspectors noted that the account opening form, approval/resolution from the board of trustees, legal opinion regarding investment from trust, identity documents of the trustees and certified copy of certificate of registration of the Trust were not available in investor's file. This was a violation of clause 2 (a) of the circular which is punishable under section 32 of the Modaraba Ordinance.

3. On the basis of the aforementioned violations, the above mentioned Notice was issued to the Modaraba Company, its above named chief executive, Directors and officer under section 32 of the Modaraba Ordinance. They were required to submit written response to the Notice within 10 days. They were also required to appear before the Registrar Modaraba on October 16, 2018 for a personal hearing. The Modaraba Company vide letter dated October 10, 2018 submitted the requisite response to the Notice. On October 16, 2018, the chief executive appeared in person on behalf of the Modaraba Company and its above mentioned directors and officer.

4. The written response was duly considered by the then Registrar Modaraba and found deficient. On the request of the chief executive in the personal hearing, permission for submission of a revised response was granted. Accordingly, the Modaraba Company submitted a revised response to the Notice on October 24, 2018. In order to meet both ends of justice, the undersigned granted another opportunity of hearing to the Modaraba Company on November 08, 2018 in which the chief executive appeared.

5. Both the written responses to the Notice and submissions made by the chief executive in the hearings have been considered and my findings on the same are given below:

- (i) In the case of Mr. Shaor Ehsan, it is contended that the Modaraba Company had duly considered the source of income of the investor. It is submitted that the investor was in service for over 25 years with Shirazi Trading (Pvt.) Limited. In addition to salary, the investor was entitled to TA/DA allowances and provision of car after five years at depreciated price. These two sources contributed to his income. Moreover, being a regular saver of money, he invested in Meezan Bank's "Meezan Aamdan Certificates" on different dates regularly. He also invested Rs2,800,000 in CoMs of the Modaraba on different dates in 2014 and 2015. He liquidated the said investments in March, 2016 to extend a private loan to his



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relative. After the encashment of Meezan Aamdan Certificates of Rs500,000 and return of the loan, he invested in the Modaraba's CoM.

During the hearing, the chief executive was advised to submit copies of Meezan Aamdan Certificates and dates of investment of the said investors in CoM of the Modaraba. The Modaraba Company vide letter dated October 10, 2018 provided the copies of the certificates and details of the investments made by Mr. Sahoor Ehsan in CoMs of the Modaraba. During the hearing the chief executive also contended that the inspectors did not enquire about "other sources of income" of the investor otherwise these documents could have been provided to them. Further, in light of the knowledge of investor's source of income, it is evident that there was a continuing review of the investor by the Modaraba Company and hence its rating was justified as "low risk".

After reviewing all the documents and considering the stance taken in the hearing, it appears that the Modaraba Company had inquired about the source of income of the investor in accordance with the principles of screening of the client/customer, prescribed under clause 4 (a) (ii) of the Circular. I do not find anything on the record, requiring placement of the investor in "high risk category". I, therefore, do not impose any penalty on the Modaraba Company. However, the Modaraba Company is advised to adopt a careful approach of screening and periodic review of the investors in light of the principles mentioned in the Circular to combat money laundering activities, terrorist financing and other illegal trades in a more proactive manner.

- (ii) In the case of Mr. Muhammad Hussain, the Modaraba Company has submitted that the investor by profession is an engineer with KASB Developers (Pvt.) Limited. He had initially invested an amount of Rs1,000,000 in CoMs of the Modaraba. Thereafter, he invested in CoM of the Modaraba on different dates, totaling Rs3,500,000. It is correct that he was drawing a salary of Rs85,620 (2015) and Rs85,602 (2017). In addition to the monthly salary, he was drawing a consultancy allowance around Rs200,000 per month. Mr. Hussain made all the investments from his savings over the years.

While doing the due diligence of the investor, the Modaraba Company had obtained the salary slips, income tax return and bank statements to verify his source of income due to which he was considered a "low risk" investor. Income tax record of the investor is updated and kept with the Modaraba which shows that periodic customer review is in place.



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I have examined all the contentions made by the Modaraba Company and noticed that the bank statements and the income tax returns of the investors do not commensurate with the investments made by him in CoMs of the Modaraba. As per his bank account statements, available balance as of April 30, 2015 was Rs211,375.51 and Rs393,967.96, respectively. According to tax returns, his annual income for the years 2016 and 2017 was Rs1,130,000 and Rs1,180,000, respectively. Further, contrary to the claim of the Modaraba Company, the investor has not mentioned about the income of "consultancy allowance" in his income tax returns.

I have also noticed with concern that the Modaraba Company has not provided the copy of wealth statements of the investor. In the hearing, the chief executive had taken the stance that the investor has not filed the wealth tax return. I pointed out that income tax return cannot be filed without filing the tax return, to which the chief executive changed his stance, stating that the investor had not shown any assets/investment in his wealth tax returns by mistake. Despite directing him in the hearing, the chief executive has not provided the copies of wealth tax returns of the investor. The Modaraba Company also failed to provide any documentary evidence regarding periodic customer review of the investor as required under clause 6 of the Circular.

In view of the facts mentioned above, the contravention of clause 4(a)(ii) and clause 6 of the Circular has been established. I, therefore, impose a penalty of Rs. 10,000 on the Modaraba Company for violating clause 4(a)(ii) and clause 6 of the Circular. The Modaraba Company is also directed to immediately take necessary measures as required under guidelines provided in the Circular.

- (iii) It has been stated that Ms. Humaira Qureshi was a non-resident Pakistani and working in the United States till the year 2016. As per the federal tax return filed by her in USA, her gross income for the year 2015 was \$37,819. After shifting to Pakistan, she is filing income tax return regularly. The Modaraba Company has submitted copies of her income tax returns for the year 2016 and 2017 to prove her source of income. It is also contended that Ms. Humaira Qureshi opened her bank account jointly with her mother who supported her in investment in CoMs.

The Modaraba Company also obtained bank statement of her mother to establish her savings. As Ms. Humaira Qureshi's investment in the Modaraba was identifiable therefore, she was categorized as "low risk" investor.

A close scrutiny of the documents on the record and the submissions made by the



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chief executive in the hearing, I have noticed that the Modaraba Company had taken sufficient measures to ensure compliance of clause 4(a)(ii) of the Circular to identify the sources of income of the investor. Therefore, I do not impose any penalty on it. However, the Modaraba Company is warned to carry out the requisite periodic customer review as required under clause 6 of the Circular immediately to record update or any change in KYC of the investor.

- (iv) In the case of Sultana Khatoon Trust, the Modaraba Company has maintained that the account of the Trust was opened with Modaraba on January 2, 2015 and an amount of Rs2,200,000 was invested in CoMs of the Modaraba. The account opening form for this initial investment of Rs2,200,000 as well as the approval/authorization of the Board of Trustees of the Trust were obtained. However, the same were placed in an old file. The inspectors had not asked for the said documents, otherwise the same would have been provided to them. The Modaraba Company has provided copies of the both the documents which have been placed on the record.

In view of the fact that copies of all the documents have been provided by the Modaraba Company, I do not impose any penalty in this account.

6. Nothing in this Order may be deemed to prejudice operation of any other provision of the Modaraba Ordinance providing for the prosecution or imposition of further penalties on the Directors and the Modaraba Company in respect of any default, omission, violation of the Modaraba Ordinance, 1980 and Modaraba Rules, 1981 committed by them.

7. Issued under my hand and seal this 13th day of November, 2018.



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(Bushra Aslam)

Registrar

Modaraba Companies and Modarabas