



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Before Commissioner (SCD)

In the matter of Show Cause Notice issued to HBL Asset Management Limited ("HBL AML") and its Chief Executive Officer ("CEO") under Section 282J (1) read with Section 282M (1) and Section 282D of the Companies Ordinance, 1984

Date of hearing: March 08, 2017

Present: i. Barrister Raja Adnan Khan
(on behalf of HBL AML and its CEO) (Senior Associate, Madviwalla and Zafar)
ii. Mr. Noman Qurban
(CFO & Company Secretary, HBL AML)

Assisting the Commissioner (SCD) i. Mr. Imran Inayat Butt (Executive Director)
ii. Mr. Muhammad Jahangir (Joint Director)
iii. Ms. Zonish Inayat (Deputy Director)

ORDER

This Order shall dispose of the proceedings initiated against HBL Asset Management Limited (the "Company" or "HBL AML") and Mr. Farid Ahmed Khan, Chief Executive Officer of HBL AML (the "CEO") (collectively the "Respondents") through show cause notice (the "SCN") bearing No. SCD/AD-AMCW/HBLAML/11/34/2017 dated February 13, 2017 under section 282J (1) read with section 282M (1) and Section 282D of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are that the Securities and Exchange Commission of Pakistan ("SECP" or the "Commission") while granting merger of PICIC with and into HBL AML under section 282L of the Ordinance through Order dated August 31, 2016 (the "Order") imposed the following condition :

"HBL AML shall convert two closed end funds namely PICIC Investment Fund ("PIF") and PICIC Growth Fund ("PGF") into open end funds with bifurcation into two classes of units (i.e. Class A units with frozen and Class B units with unfrozen portfolio) upon expiry of agreements with Privatization Commission ("PC") on June 30, 2016. Furthermore, Class A units shall be eligible for redemption upon unfreezing of PSO and SNGPL by PC and Class B units shall be allowed to be redeemed by the unit holders at any time after conversion of the aforementioned funds into open end."

3. The Commission vide its letter dated December 13, 2016 asked HBL AML to provide the status of compliance with the said condition of the Order. In response, HBL AML vide letter dated December 19, 2016 requested for extension in time to ensure compliance with the merger condition. However, the Commission through letter dated December 23, 2016 did not accede to the request of HBL AML.

4. It was construed from the facts gathered that the Company and its CEO have failed to comply with the merger condition which attracts penal provision of sub-section (1) of section 282J of the Ordinance.



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Continuation Sheet - 1 -

5. Consequently, SCN was issued to the Respondents whereby it was called upon to show cause in writing by February 20, 2017 as to why penal action may not be taken against them for the aforesaid contraventions and an opportunity was granted to appear before the undersigned on February 23, 2017 in person or through authorized representative. However, in response to the SCN, the Respondents through their legal advisor M/s Mandviwalla & Zafar vide letter dated February 17, 2017 requested for extension in time by March 01, 2017 for submission of reply to the SCN and requested to fix the hearing after March 06, 2017. The extension was granted till March 01, 2017 for submission of reply and hearing was rescheduled for March 08, 2017. The CEO of the Company submitted reply to the SCN vide letter dated March 01, 2017. With reference to contents of the SCN, a brief of submissions by the Respondents are given below:

- i. Immediately after the merger order, HBL AML commenced irreversible process of conversion of PICIC Investment Fund ("PIF") and PICIC Growth Fund ("PGF") into open-end schemes.
- ii. Subsequent to merger, HBL AML and PICIC commenced its combined operations from September 1, 2016 and integration of workflows of the two companies undertook by HBL AML. HBL AML initiated the consultative process in-house and sought views of CDC Pakistan Limited, Trustee of the funds.
- iii. Since the conversion of PIF and PGF due to its distinctive features was a much more complex and time consuming process therefore HBL AML vide letter dated December 19, 2016 sought extension in time from the SECP for conversion of funds.
- iv. After meeting with SECP, HBL AML commenced the conversion of PIF and PGF to comply with Clause No. 6 (xiii) of the Merger Order.
- v. The CEO's term commenced on September 1, 2016 subsequent to the Merger Order and he continued to make every effort to make compliance with the merger condition.
- vi. The CEO never previously received any SCN in his capacity as officer of any asset management company in the history of his career having held various positions including that of CEO.

6. A hearing in the matter was held on March 08, 2017 wherein Barrister Raja Adnan Khan and Mr. Noman Qurban (the "CFO") appeared on behalf of the Respondents and made submissions mainly reiterating the earlier written stance. It was further stated by the CFO that HBL AML has been actively working on the conversion process and a plan for conversion of PIF and PGF has already been approved by the Board of Directors of HBL AML on February 24, 2017. Moreover, it was also informed by the CFO that general meetings of unit holders of respective funds are being held on March 27, 2017 and notices have already been published in the newspapers.

7. I have analyzed the facts of the case, relevant provisions of the Ordinance referred; the arguments put forth by the Respondents in writing as well as during the course of hearing and developments took place subsequent to the hearing. In this context, my observations are as under:



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION**

Continuation Sheet - 2 -

- i. Despite having granted extension till December 31, 2016, HBL AML did not timely initiate the conversion process. The review of the minutes of the 58th meeting of the Board of Directors of HBL AML held on October 31, 2016 reveals that the management of HBL AML was authorized to seek clarification from SECP regarding conversion related issues and if required, seek an extension in the deadline to ensure smooth transition for the unit holders. However, no such clarification or extension was sought from the Commission until SECP asked the management to provide an update on the conversion process.
 - ii. It is pertinent to mention that the Company asked for the relaxation only after an update in the matter was sought by the Commission and the deadline of December 31, 2016 was fast approaching. Further, HBL AML vide letter dated December 29, 2016 also sought clarifications on the conversion process. On request of HBL AML, SECP vide its letter dated January 04, 2017 invited the CEO of HBL AML for meeting on January 10, 2017 in which the issues were discussed and clarified.
 - iii. The documentary evidence available on record does not support the claim of HBL AML that the consultative process for conversion was initiated immediately after the Order for merger dated August 31, 2016. HBL AML sought views of CDC Pakistan Limited, the trustee of PIF and PGF vide letter dated December 26, 2016 i.e. only four days before the deadline of December 31, 2016.
 - iv. HBL AML vide its letter dated January 23, 2017 sought views of the Commission on the steps of conversion process recommended by M/s Bawaney & Partners and the Commission vide its letter dated January 31, 2017 chalked out a detailed process for conversion of PIF and PGF into open end schemes. Had HBL AML approached the Commission for clarification earlier and in a timely manner, the same would have been provided to them accordingly.
8. Before concluding the proceedings initiated, I consider it important to mention that the Commission is committed to protect the rights of unitholders by maintaining discipline in the mutual fund industry. In this regard, any condition imposed or direction given to a regulated entity should be complied with in letter and spirit.
9. I am of the view that the management of HBL AML was found to be negligent in this instant case as it failed to comply with the conditions imposed by the Commission. However, the process of conversion has already been started by the Company and it is taking various steps to comply with the directions of the Commission by converting funds under the guidance of all stakeholders. Therefore, the Company and its CEO are hereby strictly advised to ensure compliance of the regulatory framework in future.


(Zafar Abdullah)
Commissioner (SCD)

Announced: September 29, 2017 at Islamabad