



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Before Commissioner (SCD)

In the matter of Show Cause Notice issued to NBP Fullerton Asset Management Limited (NAFA) under Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984

Date of hearing: March 13, 2017

Present:

- i. *Dr. Amjad Waheed, Chief Executive Officer*
- ii. *Mr. Raheel Rehman, Sr. Manager Compliance*

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 NBP Fullerton Asset Management Limited (the "Company" or "NAFA") through show cause notice (the "SCN") bearing No. SCD/AD-AMCW/NAFA/14 /38/2017 dated February 27, 2017 under section 282J (1) read with section 282M 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 (the "Commission") conducted a snap check of NAFA Islamic Savings Centre, located at Gulistan-e-Johar, Karachi on December 7, 2016 wherein it was observed that NAFA charged front-end load from a walk-in customer in contravention with the requirements of Circular 26 of 2015 (the "Circular"). Taking cognizance of the matter, SCN dated February 27, 2017 was served on NAFA through its Chief Executive Officer ("CEO").

3. 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. Company has taken various measures to ensure compliance with the requirements of the Circular such as:

a. Training of the sales team;



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

Continuation Sheet - 1 -

- b. Obtaining a declaration from the sales staff to abide by SECP rules, regulations, directives and other guidelines;
 - c. Spot checks and mystery shopping by the Company itself;
 - ii. Owing to mystery shopping by the Company itself, a member of the sales team was penalized with a penalty of 20% deduction of salary for not complying with the requirements of the said Circular. Further, it is also stated that the management has obtained forced resignation from the sales staff responsible in the present matter.
 - iii. NAFA has largest sales team of over 400 staff. As they share a portion of the sales load charged to investors as their commission therefore some staff members may opt to violate the respective Circular. NAFA in its response declares itself to be vigilant in enforcing the letter and spirit of the subject Circular and claims that instance of reported violation is an act of the sales staff involved and not any violation on the part of the Company.
4. A hearing in the matter was held on March 13, 2017 which was attended by Dr. Amjad Waheed, CEO and Mr. Raheel Rehman, Senior Manager Compliance of NAFA (collectively "the Respondents"). During the hearing, the Respondents made submissions mainly reiterating the earlier written stance. It was further submitted by the CEO that every second Saturday, a conference of the sales staff is organized by the Company. In said conferences, the sales staff are instructed repeatedly to comply with the regulatory framework specially the requirements pertaining to the Circular in letter and spirit.
5. 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. My observations are as under:
 - a. Subsequent to imposition of penalty on the Company, vide order dated October 25, 2016 for charging of front-end load from a walk-in customer, the Company has taken various measures such as training of the staff, requirement of written declaration and mystery shopping etc. to ensure regulatory compliance;
 - b. In addition to the training provided to the sales staff, the Company has also penalized the employees concerned for violating the requirements of the Circular;
6. Despite the measures taken by the Company, the elimination of practice of charging front-end load from a walk in customer could not be fully ensured. While analyzing the facts of the case,

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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Continuation Sheet - 2 -

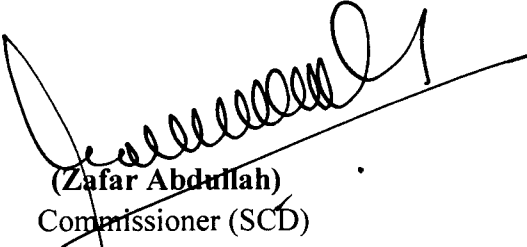
I have also come to know that *“the sales staff share a portion of the sales load charged to investor as their commission”*.

This practice of linking the commission of sales staff with the sales load charged to the investor may induce the sales staff to charge front-end load to increase their remuneration. It is contrary to the objectives of ensuring compliance with the requirements of Circular 26 of 2015.

7. In view of the above, the management of NAFA is advised to formulate a policy regarding commission of the sales staff wherein some other suitable criteria may be formed to avoid the inherent conflict between the requirements of the Circular 26 of 2015 and the manner to determine the amount of the commission of the sales staff. I believe that it is the domain of the management of the Company to form policies to motivate the sales staff for achieving the revenue targets but at the same time such policies should not be, in any way, detrimental to the regulatory compliance.

8. Considering the fact that the Company has taken various initiatives to ensure compliance with the regulatory framework by the sales staff, I am not imposing any penalty this time by taking a lenient view. However, this is subject to the premise that the management of NAFA shall continue its efforts to ensure full compliance with the regulatory requirements.

9. 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: April 3, 2017 at Islamabad.