



Securities and Exchange Commission of Pakistan
Securities Market Division

Before the Executive Director (SMD)

In the matter of Registration of First Dawood Investment Bank Ltd. as a Trustee under the
Debt Securities Trustee Regulations, 2012

Date of Hearing:

July 5, 2013

Present at the Hearing:

i). Mr. Rasheed Y Chinoy

Chief Executive Officer, First Dawood
Investment Bank Ltd.

ii). Mr. Mohammad Rizwan ul Haque

Senior Executive Vice President, First
Dawood Investment Bank Ltd.

Assisting the Executive Director (SMD):

i). Mr. Amir M. Khan Afridi

Director (Capital Issues Wing), SMD

ii). Mr. Sajid Imran

Joint Director (Capital Issues Wing), SMD

iii). Ms. Nazish Zubair

Deputy Director (Capital Issues Wing), SMD

ORDER

1. This Order shall dispose off the application dated September 5, 2012 of First Dawood Investment Bank Limited ("FDIBL") for grant of certificate of registration as a Debt Securities Trustee under regulation 6(2) of the Debt Securities Trustee Regulations, 2012 ("the Regulations").

2. The detailed scrutiny of the information/documents attached with the application mentioned in para 1 above for grant of certificate of registration revealed the following:

- (i) Licenses granted to FDIBL to undertake the business of Leasing and Investment Finance Services have expired;
- (ii) A show cause notice regarding winding-up of FDIBL has been served under the Companies Ordinance, 1984 read with the Non-Banking Finance Companies (NBFC) Rules, 2003 and Non-Banking Finance Companies and Notified Entities Regulations, 2008;
- (iii) Deposit taking permission earlier granted to FDIBL has been revoked; and
- (iv) FDIBL has been declared as defaulter by the Pakistan Credit Rating Agency Limited.

3. FDIBL was requested vide this office letter of even number dated October 4, 2012 to justify as to how it can be granted registration as Debt Securities Trustee keeping in view the concerns as mentioned in para 2 above. FDIBL vide letter dated November 29, 2012 stated that:



- a) FDIBL has made an application vide letter dated September 5, 2012 and paid the fee for renewal of license for carrying on the business of Leasing and Investment Finance Services;
- b) FDIBL had given no comments on the issue mentioned at para 2(ii) of the Commission letter No. SMD/CIW/DSTR/06/2012 dated October 04, 2012 reproduced at para 2(ii) above;
- c) FDIBL has not been voluntarily taking deposits;
- d) FDIBL has not been declared a defaulter, the Credit Rating Agency downgraded its rating to "D" despite the fact that reasonable restructuring/settlement has been achieved. The management feels that the rating agency has developed selective rating criteria and recorded its protest with them.

4. In order to decide the matter on merit, an opportunity of hearing was provided to FDIBL in terms of regulation 8(1) of the Regulations. The hearing was conducted on July 5, 2013 at SECP's Regional Office Karachi and attended by Mr. Rasheed Y Chinoy, Chief Executive Officer, FDIBL and Mr. Muhammad Rizwan-ul-Haque Senior Executive Vice President, FDIBL (hereinafter collectively referred to as the "representatives"). The deficiencies referred to at Para 2 above were fully explained to the representatives during the course of hearing. The representatives in reply stated that:

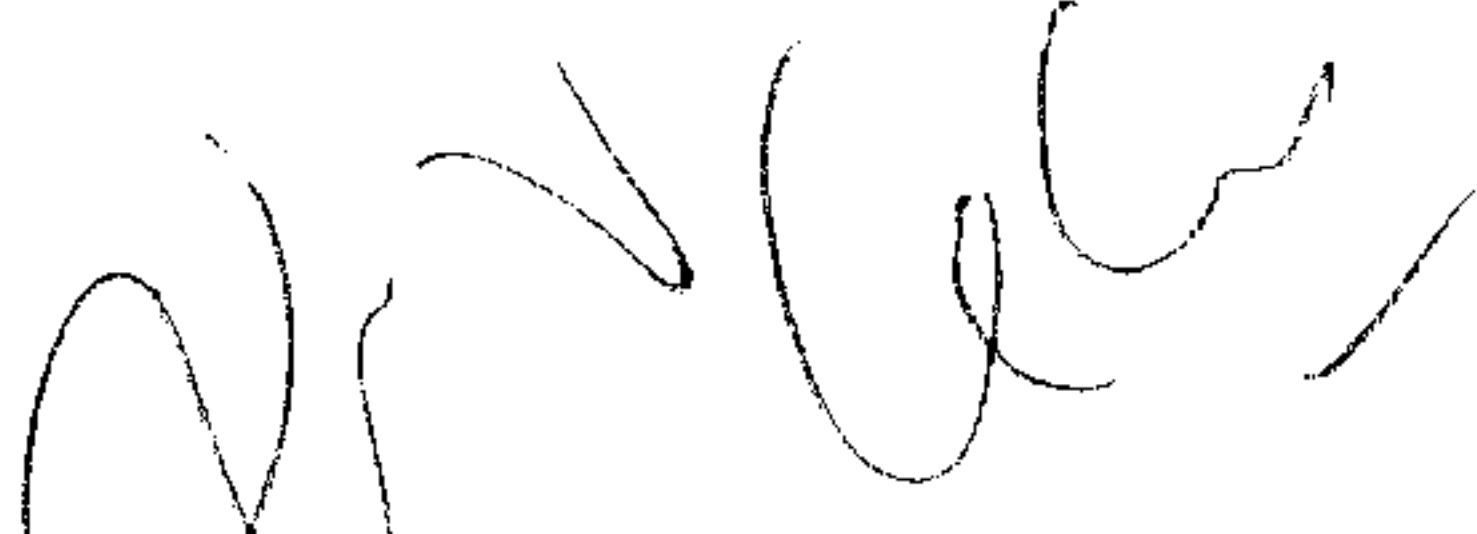
- a) The management of FDIBL has been changed. Mr. Rasheed Y Chinoy has joined FDIBL as the CEO in September 2012 and is fully involved in FDIBL's operations including the trusteeship business and the performance has started improving;
- b) With respect to expiry of the Investment Banking License, it was stated that FDIBL had applied to SECP for the renewal of License and have not yet received any response;
- c) On the issue of being declared as defaulter, it was stated that it was due to the unprecedented stock market crises of 2008;
- d) It was further stated that FDIBL is voluntarily not taking deposits.
- e) Regarding the issue of going concern it was stated that FDIBL has settled liabilities worth over Rs. 9 billion during the last five years.
- f) With respect to the winding up show cause notice, the representatives of FDIBL stated that it has duly responded to the said notice; and
- g) Lastly it was stated that they will get their credit rating done once they complete their restructuring.



5. The arguments of the representatives were further probed and it was observed that:
- a) Despite the change of the CEO, the management i.e. Dawood Family continues to control FDIBL through its directorship (Mr. Rafique Dawood is the Chairman of the Board of the Company and Mr. Ayaz Dawood is the Executive Director). The same persons were controlling the entity in period during which the major irregularities were committed;
 - b) FDIBL is not compliant with the minimum equity requirements. The minimum equity requirements for FDIBL is Rs. 1,700 million but as on June 30, 2013 the equity of FDIBL stood at Rs. 232 million thus showing a shortfall of Rs. 1,468 million.
 - c) Several financial institutions have filed complaints with the Commission against FDIBL for failure to honor its issued guarantees on one pretext or another;
 - d) FDIBL defaulted on its issued Privately Placed Term Finance Certificates (PPTFC) and subsequently accumulated the said instrument from the secondary market through its related party at a discount, thus defrauding the holders of PPTFCs;
 - e) The management and sponsors of FDIBL have not performed their fiduciary responsibilities with due care and in a professional manner and thus management and sponsors have been guilty of breach of trust.

6. Keeping in view the adverse findings at para 5 above and the fact that licenses granted to FDIBL by SECP to undertake the Leasing and Investment Finance Services have not yet been renewed; FDIBL has been declared as defaulter by the Pakistan Credit Rating Agency Limited; the auditor of FDIBL in its report annexed to the financial statements for the year ended June 30, 2012 has shown doubt about FDIBL's ability to continue as a going concern and the auditor has retained the same status in its report dated June 30, 2013; I am convinced that allowing FDIBL to undertake trusteeship business is not in the interest of the investors and the capital market. Hence the application of FDIBL for registration as a Debt Securities Trustee is refused under regulation 8(1) of the Regulations.




Imran Iqbal Panjwani
Executive Director (SMD)

Announced on November 22, 2013
Islamabad.