



**Securities and Exchange Commission of Pakistan  
Specialized Companies Division  
Policy, Regulation and Development Department  
(Modaraba Wing)**

No. SC/M/PRDD-ADJ/PARAMOUNT/2016-102

October 13, 2016

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. 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.
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. 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.
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. 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.
7. 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 IN RESPECT OF THE SHOW CAUSE NOTICE DATED AUGUST 25, 2016 BEARING NUMBER  
SC/M/PRDD-ADJ/PARAMOUNT/ 2016-49**

Dear Sir,

Please find enclosed herewith a copy of the order in the title matter for your record and necessary action.

Yours truly,

**(Seema Saud)**

Management Executive



No. SC/M/PRDD-ADJ/PARAMOUNT/2016-101  
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/PRDD-ADJ/PARAMOUNT/2016-49

Dated:

August 25, 2016

Submissions by:

1. Syed Wajih Hassan,  
Chief Executive in person and on behalf of Paramount Investments Limited
2. Mr. Nadeem Iqbal, Director in person and on behalf of:
  - (i) Pir Muhammad Kalia, Director
  - (ii) Mr. Abdul Razzak Jangda, Director
  - (iii) Khalid Rehman, Director
  - (iv) 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 ("Modaraba Company"), the managers of First Paramount Modaraba ("the Modaraba") and its Directors, initiated vide show-cause notice dated August 25, 2016 ("the Notice") under section 32 of the Modaraba Companies and Modaraba (Flotation & Control) Ordinance 1980 ("the Modaraba Ordinance").

2. As per the Notice, the Modaraba Company charged the rent of office space owned by Mr. Nadeem Iqbal, Director to the Modaraba fund which was primarily the responsibility of the Modaraba Company in terms of regulation 9(3) of Part-IV of the Prudential Regulations for Modarabas ("the Regulations"). Further, the Modaraba Company did not disclose the said related party transaction in the financial statements of the Modaraba in violation of rule 10 of the Modaraba Companies and Modaraba Rules, 1981 ("the Modaraba Rules"), read with SRO 633 (1)/2014 dated July 10, 2014. Furthermore, the Modaraba in its financial statement as of June 30, 2015 disclosed its investment of Rs. 20.00 million in Al Akhuwat FTZ. The investment in Al Akhuwat was not transferred in the name of the Modaraba and was remained under the title of the Modaraba Company and Mr. Nadeem Iqbal, Director which is in contravention of section 12(2) of the Modaraba Ordinance. The Modaraba Company also charged remuneration and benefits of Chief Executive to the Modaraba Fund amounting to Rs. 621,053 and Rs.



261,014 for the years 2014-15 and 2015-16, respectively which is a contravention of rule 16 (1) of the Modaraba Rules.

3. On the basis of the aforementioned violations of the law, a Notice was issued to the Modaraba company, its above named chief executive and Directors under section 32 of the Modaraba Ordinance. They were required to submit written response to the Notice within 10 days from the date of receipt of the Notice. They were also required to appear before the undersigned on September 19, 2016 for a personal hearing in the matter. The Modaraba Company submitted the requisite response on September 19, 2016. On behalf of the Modaraba Company and in his personal capacity, Syed Wajih Hassan, Chief Executive appeared on September 19, 2016. Mr. Nadeem Iqbal, Director also appeared in person and on behalf of Pir Muhammad Kalia, Mr. Abdul Razzak Jangda, Mr. Humayun Mazhar Qureshi and Mr. Khalid Rehman, Directors.

4. The written response to the Notice and submissions made in the hearing have been taken into account and my findings on the same are given below:

- (i) With regard to charging of rent of an office premises owned by Mr. Nadeem Iqbal, Director, to the Modaraba Fund, in violation of regulation 9 (3) of Part-IV of the Prudential Regulations for Modarabas, it has been submitted that the Modaraba Company has already provided office space to the Modaraba. The alleged charging of the rent for the office premises was exclusively for a new project of the Modaraba namely; FPM Solutions.

The submissions of the Modaraba Company have been examined and found the same are in accordance with the law. As per the record, the Modaraba Company has provided an office space for the business operations of the Modaraba which is located at Suite No. 107-108, 1<sup>st</sup> Floor, P.E.C.H.S, Sharah-e-Quaideen, Karachi. In addition to the office space provided by the Modaraba Company as aforesaid, any additional accommodation acquired for new business projects of the Modaraba does not fall within the definition of regulation 9(3) of Part-IV of the Regulations. Hence, there is no violation of the regulation.

- (ii) As regards non-disclosure of related party transaction pertaining to the rented office space owned by Mr. Nadeem Iqbal, Director, in the financial statements from the period ended December 31, 2014 and onwards, the Modaraba Company, its Chief Executive and Directors failed to provide any cogent justification.

It is pertinent to mention here that the basic purpose for preparation and dissemination of financial statements is to provide adequate financial information to the certificate holders. The requirements of preparation of the financial statement in light of the international accounting standards are to ensure proper and adequate disclosures to the stake holders. In my view, the Modaraba Company has been negligent and failed to comply with the requirement of rule 10 of the Modaraba Rules. I therefore, impose a penalty of Rs. 50,000 on the Modaraba Company with the direction to ensure compliance of the regulatory framework in the future.

- (iii) With regard to non-transfer of investment in shares of Al Akhuwat FTZ amounting to Rs. 20.00 million to the name of Modaraba which are currently in the name of the Modaraba Company



(40% of the total holding) and Mr. Nadeem Iqbal, Director (10% of the total holding), the Modaraba Company in its written reply as well as Mr. Nadeem Iqbal, Director in the hearing submitted that the Modaraba invested the amount of Rs. 20 million in Al Akhuwat FTZ, a UAE based company. As per the requirement of the UAE authorities, the shares of Al Akhuwat FTZ could only be issued to a company and not the Modaraba. Despite the fact, the investment was not in the name of the Modaraba, it was disclosed in its financial statements as of June 30, 2015 as an asset of the Modaraba.

In the hearing, the Chief Executive was advised to provide appropriate documentary evidence to substantiate the claim that only a "company" can become shareholder in a company formed in UAE. The Modaraba Company vide letter dated September 23, 2016 provided a copy of email of Mr. Vaseem Bari, Marketing Manager, Universal Consultant. I have Noticed that the copy of the email is not showing standard email details i.e. the name of the sender, recipient and date etc., hence it cannot be relied upon. The Chief Executive also maintained that the issue regarding the ownership of the said investment was never raised by the internal or external auditors of the Modaraba.

From a careful examination of all the facts presented before me, I have Noticed that the Modaraba Company and its Chief Executive could not properly substantiate the fact that shares of a company established in UAE can only be allotted to a company and not to a corporate entity like Modaraba. Furthermore, non-transfer of shares of Al Akhuwat FTZ to the name of the Modaraba for a period of more than two years shows gross negligence on the part of the Modaraba Company to safeguard the investment of the Modaraba in a prudent manner. The Modaraba disclosed its investment of Rs. 20.00 million in Al Akhuwat FTZ in its financial statements as of June 30, 2015 the title of which was not transferred to the name of Modaraba and was remained under the title of the Modaraba Company and Mr. Nadeem Iqbal, Director. I am of the view that the Modaraba Company and its Chief Executive and Directors failed to act in accordance with section 12(2) of the Modaraba Ordinance which stipulates that the assets and liabilities of each Modaraba shall be separate and distinct from those of the Modaraba Company. Hence, contravention of section 12(2) of the Modaraba Ordinance is established. I, therefore, impose a penalty of 100,000 on the Modaraba Company on this account with the direction to exercise utmost care to safeguard the investments and assets of the Modaraba in future.

- (iv) Regarding charging the remuneration benefits of the Chief Executive to the Modaraba, the Modaraba Company has not provided any plausible justification for the same, rather relied on the detail of expenses allocation to the Modaraba and the Modaraba Company. Neither in the reply to the Notice nor in subsequent correspondence dated September 23, 2016, nothing has been mentioned about charging of expenses of the Chief Executive other than vehicle related expenses to the Modaraba Fund. It is pertinent to mention here that the expression "remuneration" includes salary and other perks and privileges. Charging of the expenses as mentioned in the Notice to the Modaraba Fund, which are covered under the expression "remuneration" are prohibited under Rule 16(1) of the Modaraba Rules. As per information provided by the Modaraba Company vide letter dated September 23, 2016, the remuneration of the Chief Executive was partially reimbursed by the Modaraba Company, I am not inclined to impose any penalty on this account. However, the Modaraba Company is directed to reimburse all the expenses incurred by the Chief Executive from the Modaraba fund from the period 2014-15 and onwards to the Modaraba and submit appropriate documentary evidence in this regard, within 15 days from the date of this Order.

As regards the travelling expenses of the Chief Executive, I tend to agree with the response provided by the Modaraba Company in the written reply as well as during the hearing that the



travel expenses of the Chief Executive were charged to enhance the business of the Modaraba. The Modaraba Company is, however, advised to be careful while incurring such expenses ensuring that the certificate holders money is not used for any purpose other than the business of the Modaraba.

5. The Modaraba Company is required to deposit the penalty amount imposed hereinabove in the bank account of Securities and Exchange Commission of Pakistan, maintained with Muslim Commercial Bank Limited and furnish the original paid bank challan to this office as an evidence of having made the payment. The amount of penalty shall not be charged to the Modaraba Fund.

6. In addition to the aforementioned violations of the law reported in the enquiry report, the enquiry team has also drawn attention towards inadequate internal system and control procedures within the Modaraba. The major areas of concern reported by the enquiry team include non-compliances of the provisions of the agreements executed with the counter parties, imprudent business practices, poor investment decisions and unsound business practices etc. During the hearing, the Chief Executive discussed the future plans with regard to strengthening the systems and controls in the Modaraba. The reasons and causes lead to suspension of the permission for issuance of Certificates of Musharakah (COM) by the Modaraba was also discussed in detail with the Chief Executive and Mr. Nadeem Iqbal, Director and it was clarified to them that the Modaraba shall not be permitted to raise COM till the time the factors discussed above witness a significant improvement. As far as the repayment of outstanding COM is concerned, the Chief Executive assured that all the financial obligations of the Modaraba shall be honored in a timely manner.

7. 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.

8. Issued under my hand and seal this 13<sup>th</sup> day of October, 2016.

  
(Shahid Mahmood)

Registrar

Modaraba Companies and Modarabas

