



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN INSURANCE DIVISION

[Karachi]

Before Nasreen Rashid, Executive Director (Insurance)

In the matter of

Pakistan General Insurance Co. Limited

Date of Show Cause Notice: April 14, 2010

Date of Hearing: May 11, 2010

Attended by: Aftab Ahmad Phambra, General Manager- Pakistan
General Insurance Co. Ltd.

Date of Order: May 20, 2010

ORDER

Under Sub Rule (i) Of Rule 6 Of Companies (Issue Of Capital) Rules, 1996

Read With Section 476 Of The Companies Ordinance, 1984

Background Facts

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This Order shall dispose off the proceedings initiated against Pakistan General Insurance Company Limited ("Company") vide Show Cause Notice dated 14.04.2010 under the provisions of Sub Rule (i) Of Rule 6 Of Companies (Issue Of Capital) Rules, 1996 ("Rules") Read With Section 476 Of The Companies Ordinance, 1984 ("Ordinance").

2. Brief facts leading to this case are that the Commission upon review of the website of Lahore Stock Exchange (www.lahorestock.com) dated 07.04.2010 noted that according to the financial results, the Company had announced a bonus issue of 25% for the said year.

3. The Company did not communicate the decision of the Directors to issue bonus shares to the Commission on the day of the decision along with the auditor's certificate as specified in Sub-rule (iii) of Rule 6 of the Rules



Show Cause Notice

4. Failure of the Company to comply with the mandatory provisions of the said Rules necessitated action against the Directors of the Company in terms of Sub Rule (i) of Rule 6 of the Rules. Accordingly, a Show Cause Notice dated 14.04.2010 ("SCN") was served to the Directors and CEO of the Company calling upon them to show cause in writing and to explain as to why penalty may not be imposed under provisions of Rule 11 of the Companies (Issue Of Capital) Rules, 1996 for contravening the provisions of Rule 6 of the Rules.

Company Reply

5. In response to the SCN, the Company Secretary, made the following submissions vide his letter dated 27.04.2010 received on 03.05.2010:

- (i) The Company had complied with all the related requirements of Rule 6 of the Rules including obtaining Auditor's Certificate to confirm the availability of 25% free reserves after issuance of bonus shares.
- (ii) Decision of the Board of Directors to issue bonus shares could not be communicated inadvertently to the Commission as prescribed by law.
- (iii) The Company requested that by taking a lenient view, the proceedings initiated under the provisions of Rule 11 of the Rules may be dropped.
- (iv) Assured compliance of all corporate laws in the future.

Hearing of the Case

In view of the above, the Chief Executive and Directors were called by the Commission for a hearing in this case on May 11, 2010 at SECP Karachi premises which was attended by Mr. Aftab Ahmad Phambra, General Manager of M/s Pakistan General Insurance Company Limited for explanation on the non-compliance.

6. I feel it appropriate to quote here the relevant provisions of the Rules. Sub-rule (i) of Rule 6 of Companies (Issue of Capital) Rules, 1996 (the "Rules") provides that the decision of the Directors to issue bonus shares shall be communicated to the Commission on the day of the decision and the intimation letter shall be accompanied by the auditor's certificate as specified in Sub-rule (iii) of Rule 6 of the Rules.

7. Mr. Aftab Ahmad Phambra, while accepting the mistake, apologized for the non-compliance, assured of compliance with the law in the future and requested to condone the penalty.



Consideration of the Submissions

8. I have analyzed the aforesaid written and verbal submissions and the record of the Company available with the Commission and my observations on the issue are as follows:

- (i) The Company did not communicate to the Commission, the decision of the Directors to issue bonus shares on the day of the decision along with auditor's certificate as per Rule 6 of the Rules.
- (ii) However, the decision of the Board of Directors to issue 25% bonus shares was duly communicated to the respective Stock Exchanges in the manner as prescribed by KSE to protect the interest of the shareholders. (Copy of letter sent to KSE by the Company was submitted).
- (iii) The Company in reply to the SCN had furnished the copy of Form 3 of the Company along with the Auditors Certificate which has been found to be satisfactory.

Conclusion

9. I have given due consideration to the relevant provisions of the law and after taking care of all the facts, I am of the considered opinion that the Company has violated the mandatory provisions of law. It is the fundamental responsibility of board of Directors to comply with the statutory requirements of law while managing the affairs of the Company. Although, the Company has now furnished the documents in reply to the SCN, but there was a delay in communicating this information to the Commission on time.

Order

10. In view of the above analysis and submissions of the Company, I am taking a lenient view and instead of imposing a penalty under Rule 11 of the Rules, hereby, condone this time and warn the Chief Executive and all the Directors of the Company to be careful in the future while complying with the mandatory provisions of law.

Nasreen Rashid
Executive Director (Insurance)