



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Before Commissioner (SCD)

In the matter of Show Cause Notice issued to UBL Fund Managers Limited under Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984

Date of hearing: September 28, 2016

Present (on behalf of UBL FML):
i. Mr. Yasir Qadri (CEO)
ii. Mr. Zeeshan Quddus (Chief Risk Officer)

Assisting the Commissioner (SCD)
i. Mr. Imran Inayat Butt (Executive Director)
ii. Mr. Javed Akhter Malik (Joint Director)

ORDER

This Order shall dispose of the proceeding initiated against UBL Fund Managers Limited (the "Company" or "UBL FML" or "Respondent") through show cause notice (the "SCN") bearing No. SCD/AD-AMCW/ UBLFML/02/ 20/2016 dated September 8, 2016 under section 282J (1) read with section 282M (1) of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are as follows:

- i. The Securities and Exchange Commission of Pakistan (the "SECP" or "Commission") conducted snap checks of the branches of Asset Management Companies ("AMCs") to ascertain compliance with Circular 26 of 2015 especially whether prospective investors are being informed or not by the sales staff about charging of no sales load in case of direct approach to AMCs for making investment in mutual funds.
- ii. Employee of SECP namely Mr. Ahmad Abdulmoiz Khawaja visited UBL FML branch located at 2nd floor, UBL Building, Jinnah Avenue, Blue Area, Islamabad on August 11, 2016. He sought information from sales representative for making investment in mutual funds and was not informed that sales load shall not be applied to him considering the fact that he has directly approached the Company.
- iii. He opened an account with rupees ten thousand by investing in UBL Stock Advantage Fund.
- iv. UBL FML deducted front end load (FEL) of rupees two hundred and forty four and sales tax of rupees thirty two which was shown in the transaction statement sent to him by UBL FML.

3. It was construed from the facts gathered that the Respondent, *prima facie*, has not made compliance to the requirement of Circular 26 of 2015. Consequently, the SCN was issued to the Respondent whereby it was called upon to show cause in writing as to why penal action may not be taken

[Handwritten signature]



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

Continuation Sheet - 1 -

against it for the aforesaid contraventions. In response to the SCN, the Chief Executive Officer (CEO) of the Company through letter dated September 23, 2016 submitted its reply. With reference to contents of the SCN, a brief of submissions of the Respondent are reproduced below:

- i. *UBL FML management has issued clear instructions to all staff regarding non applicability of FEL when a customer approaches directly which are being practiced in letter and spirit ever since Circular 26 became applicable in 2015. Since that time, UBL FML had multiple instances where walk in investors opened accounts and invested in loaded products without applicability of FEL to them.*
- ii. *The Case referred in the SCN was a result of confusion as the sale representative was providing services to the father of the investor in his previous organization and was in touch with him since a few months and was updating him continuously for opening up an account with UBL Funds. From our internal fact finding efforts, it seems that Mr. Khawaja had visited the branch and come looking for the referred sales representative in specific. Our sales representative felt that since the investor has come through a reference, this can be classified as an indirect sale. Nevertheless, the Management of UBL FML also feel that this despite the points mentioned above, it was an incorrect interpretation on the part of the sales representative and it seemed to have been made unintentionally.*
- iii. *The FEL charged from the customer have already been reversed and both the sales staff involved in this transaction have also been reprimanded.*
- iv. *UBL FML sincerely apologize to the Commission for the violation of regulatory requirement on the part of the sales representative and humbly request the Commission to take a lenient view on this matter.*

4. A hearing in the matter was held on September 28, 2016 before the undersigned wherein Mr. Yasir Qadri (CEO) and Mr. Zeeshan Quddus (Chief Risk Officer) appeared on behalf of the Respondent and admitted their non-compliance to Circular 26 of 2015 and requested for a lenient view. The CEO made verbal submissions mainly reiterating the earlier written submissions. The CEO also informed about the following additional measures taken by the UBL FML which would act as deterrence so that such non compliances should not occur in future:


- i. Hiring of senior human resource as Chief Risk Officer to cater risk and compliance measures in UBL FML.
- ii. Agreement with third party for conducting periodic mystery shopping.
- iii. Increasing training frequency of sales team.
- iv. Ensuring that standees and banners regarding non applicability of FEL are prominently displayed in each branch in both Urdu and English languages.



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

Continuation Sheet - 2 -

- v. Code of Ethics and Declaration of Responsibility shall be signed by all the sales force that they have understood all the directions of the Commission and onus of any violation on their part may lead to adverse consequences for them.
5. I have analyzed the facts of the case, relevant provisions of the Circular referred and the arguments put forth by the Respondent in writing as well as during the course of hearing. My observations are as under:
- The Respondent has admitted that it has not made compliance to the requirement of Circular 26 of 2015.
 - The case referred in the SCN was not a result of any confusion on the part of the sale representative rather it was a deliberate misselling on the part of the sales representative.
 - The claim of the respondent that Mr. Khawaja had visited the branch and come looking for the referred sales representative in specific is also not true as Mr. Khawaja was a walk in customer and did not know any of the sales representative.
 - UBL FML has already refunded the amount of FEL to the investor, reprimanded both the sales staff involved in this transaction and taken the additional measures so that such non compliances should not recur in future.
6. Based on my observation at para 5 above, I am of the view that even though the Respondent has refunded the FEL to the investor, initiated additional measures and given firm commitment to avoid such instances in future, however, leniency on non-compliance towards requirement of Circular 26 of 2015 is not possible as safeguarding the investors' interest is paramount and supreme objective of SECP. Therefore, I hereby conclude the proceedings initiated under section 282J (1) read with section 282M (1) of the Ordinance by imposing an aggregate fine of Rs. 100,000/- (Rupees one hundred thousand only) on the Respondent. Moreover, in exercise of powers conferred under Section 282 D of the Ordinance, I hereby direct the Respondent to submit quarterly reports on the results of additional measures till June 30, 2017.
7. The aforesaid fine must be deposited in the designated bank account maintained with MCB Bank Limited in the name of SECP within seven days from the receipt of this Order and furnish receipted bank challan to SECP. In case of non-deposit of the penalties, proceedings for recovery of the fines as arrears of land revenue will be initiated.


(Zafar Abdullah)
Commissioner (SCD)

Announced: October 25, 2016 at Islamabad.