

**Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)**

**In the matter of Show Cause Notice issued to Meezan Bank Limited**

Date of Hearing

October 27, 2020

**Order-Redacted Version**

Order dated November 20, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Meezan Bank Limited. Relevant details are given as hereunder:

<b>Nature</b>	<b>Details</b>
• Date of Action	Show Cause notice dated August 11, 2020.
• Name of Company	Meezan Bank Limited.
• Name of Individual	The proceedings were initiated against the Company i.e. Meezan Bank Limited.
• Nature of Offence	Proceedings under Debt Securities Trustee Regulations, 2017 and Securities Act, 2015
• Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have carefully examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondents. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <p>i. The Respondent got approval of the Commission to act as debt securities trustee under the DST Regulation. The validity of approval issued to the Respondent under the DST Regulation lapsed on December 31, 2019.</p> <p>ii. The Debt Securities Trustees is a regulated activity under Section 63(a) of the Act, deals with licensing requirement for regulated securities activities. The subsection 3 of Section 64 of the Act stipulates as under:</p> <p><i>"The Commission may by notification in the official gazette, exempt any financial institution or class of financial institutions from the operation of sub-section (1) subject to such terms and conditions as may be prescribed".</i></p> <p>iii. Subsequent to promulgation of Act, DST Regulations were made under the Act to regulate the activity of Debt Securities Trustee, wherein exemption was provided to financial institution from licensing requirements. The Regulation 10(2) of DST Regulations states as follows;</p> <p><b>"10. Exemption to financial institutions from licensing requirements.:</b> (1) In terms of section 64 of the Act, a scheduled bank, a development financial institution and an investment finance company shall be</p>

	<p><i>exempted from the licensing requirements to act as a debt securities trustee as given in regulation 5, 6 and 7, subject to the following terms and conditions:</i></p> <p><i>a. It meets all the regulatory requirement required under the law governing its principal business, and;</i></p> <p><i>b. It is compliant with the eligibility criteria mentioned at sub regulation 3, 5, 6 and 7 of regulation 4;</i></p> <p><i>(2) Any schedule bank, a development finance institution and an investment finance company shall obtain approval of the Commission prior to the commencing the business as debt securities trustee. The said financial institution shall submit a board resolution authorizing it to undertake the business as a debt securities trustee along with a non-refundable fee of Rs. 100.000/-</i></p> <p><i>(3) Any scheduled bank, a development finance institution and an investment finance company while acting as debt securities trustee shall remain compliant with all the requirements of these Regulations.</i></p> <p><i>(4) Within one month of the end of each calendar year, every scheduled bank, development finance institution and investment finance company engaged in the business of debt securities trustee shall submit an affidavit along with a fee of Rs. 100, 000/- that it is compliant with all the requirements of these Regulations.</i></p> <p><i>(5) Any scheduled bank, a development finance institution and an investment finance company shall become ineligible to act as debt securities trustee if it is non-compliant with any of the requirements of these Regulations including non-submission of affidavit on annual basis.</i></p> <p>iv. In view of above-mentioned provisions of regulatory framework, I am of the considered view that the Respondent was providing services as debt securities trustee, a regulated activity, therefore it was required to adhere to the regulatory framework framed under the Act and comply with the following two requirements of the Regulations 10(4) of DST Regulations:</p> <p>a. Submit an affidavit that it is compliant with all the requirement of these regulations.</p> <p>b. Submit a fee of Rs. 100,000/-</p> <p>c. Fulfilling requirements of (a) and (b) above, within one month of the end of each calendar year.</p> <p>v. It is evident from the available record that Respondent has failed to submit requisite Affidavit and Fee i.e. the requirements of Regulations 10(4) of DST Regulations before January 31, 2020 i.e. within one month</p>
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	<p>of the end of 2019. In view of aforesaid Respondent has contravened Regulations 10(4) of DST Regulations; consequently, contravening Regulations 10(3) of DST Regulations. In terms of Regulation 10(5) of DST Regulations, the Respondent became ineligible to act as debt securities trustee on account of contravention of the requirements of DST Regulations. However, Respondent continued to provide services as debt securities trustee in violation of Section 64 of the Act and DST Regulations.</p> <p>vi. As per the record, Commission vide its letter dated February 27, 2020 to the Respondent draw the attention of Respondent towards Regulation 10 of DST Regulations and its non-compliance by the Respondent. Subsequent to that reminder, Respondent submitted the requisite Affidavit along with the evidence of payment of Fee. It needs to be understand that Commission is not under any obligation to send reminder to Respondent for its statutory responsibilities.</p> <p>vii. The contention of the Respondent that the unintentional delay of around one month in submission of Affidavit and Fee is also on account of occupation of authorized signatory in preparation of board meeting, is implausible.</p> <p>viii. It is evident that from above that there was a gross negligence on the part of Respondent with regard to understanding of applicable regulatory framework. The exemption regime is provided to financial institution as it is believed that financial institution as a regulated entity is a more disciplined and compliant to the applicable regulatory framework. However, the casual approach and negligence towards a regulated role was depicted by the Respondent in the instant case which also reflects that Respondent lacks in compliance culture.</p> <p>In view of the foregoing, contraventions of the provisions of law are evident and I am of considered view that Respondent has contravened the Regulation 10(3), 10(4) and 10(5) of DST Regulation as well as Section 64 of the Act, therefore liable to penalty as provided in Section 159(5). Based on the aforesaid, I hereby impose a penalty of <b>Rs.785,000./ (Rupees Seven Hundred Eighty Five Thousand only)</b> under Section 159(5) of the Act, on the Respondent for contravention of statutory provisions of DST and the Act.</p> <p>Penalty Order dated November 20, 2020 was passed by Executive Director (Adjudication-I).</p>
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<ul style="list-style-type: none"><li>Penalty Imposed</li></ul>	Penalty of 785,000/- ( <u>Rupees Seven Hundred Eighty Five Thousand only</u> ) was imposed.
<ul style="list-style-type: none"><li>Current Status of Order</li></ul>	Appeal has been filed against the Order.

Redacted version issued for placement on the website of the Commission.