

## BROKER MANAGEMENT RATING REPORT

### Foundation Securities (Private) Limited

**REPORT DATE:**

July 10, 2019

**RATING ANALYSTS:**

Muhammad Tabish

[mubammad.tabish@jcrvis.com.pk](mailto:mubammad.tabish@jcrvis.com.pk)

Rating Category	Latest Rating
<b>Broker Management Rating</b>	<b>BMR2</b>
<b>Rating Rationale</b>	The rating signifies strong risk management; sound internal and external control framework, client relationship and HR & IT infrastructure with adequate financial management and regulatory compliance levels.
<b>Rating Date</b>	10 July 2019

**APPLICABLE METHDOLOGY:**

Broker Management Ratings 2017:

<http://jcrvis.com.pk/docs/BMR201701.pdf>

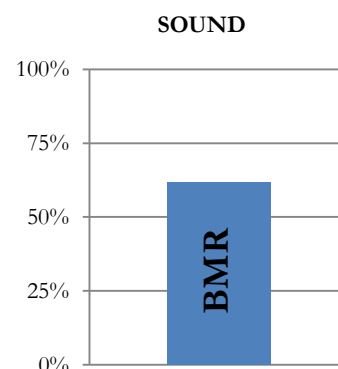
#### COMPANY INFORMATION

<b>Incorporated in 2005</b>	<b>External auditors:</b> Grant Thornton Anjum Rahman
<b>Public limited Company</b>	<b>Chairman of the Board:</b> Brig. Wajahat Nazir (Retd)
<b>Key Shareholders (with stake 5% or more):</b> Fauji Foundation Pakistan – 95.74%	<b>Chief Executive Officer:</b> Syed Ahmad Abbas Zaidi

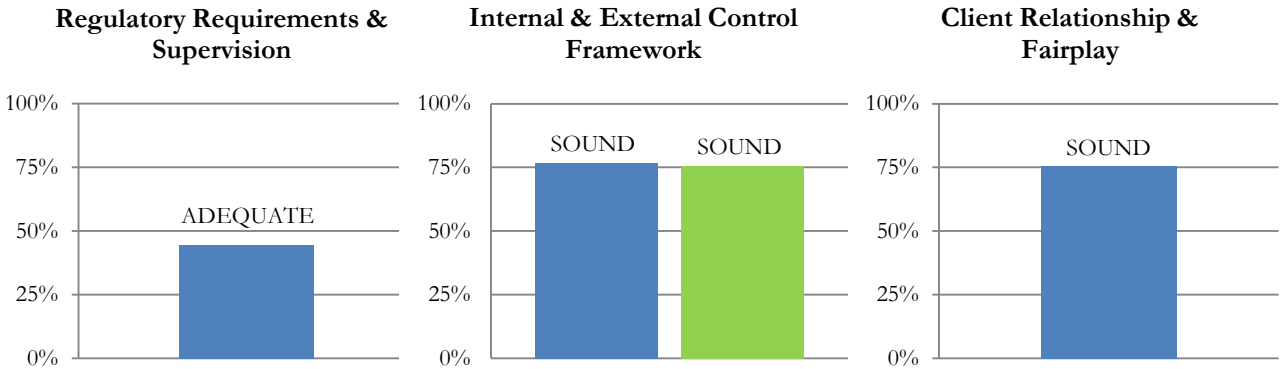
### Corporate Profile

Incorporated in 2005, Foundation Securities Private Limited (FSL) is a subsidiary of Fauji Foundation Pakistan. The group has strategic investments in various sectors including fertilizer, power, cement, infrastructure, banking, financial services, consumer goods, oil & gas and others. FSL is primarily engaged in retail and institutional equity broking services with marginal presence in commodity segment. The company has a strategic relationship with Macquarie Capital Securities Limited; an affiliate of global financial institution Macquarie Group. Presently, the company runs its operations through a head office based in Karachi along with two branches in Lahore and Islamabad.

The company holds a Trading Right Entitlement (TRE) certificate issued by the Pakistan Stock Exchange Limited (PSX). FSL's major shareholding (96%) rests with Fauji Foundation. External auditors of the company are Grant Thornton Anjum Rahman. Auditors are on the approved list of auditors in category 'A', published by the State Bank of Pakistan (SBP).



**Rating Factors Scores**



- Increase in Board size along with appointment of an independent director would add to corporate governance standards.
- An independent director chairing BAC would be consistent with international best practices.
- Some encouragement for directors’ training was noted during the period under review.

- Internal control environment is supported by well-defined and prudent policy framework.
- Improvement in employee trading guidelines was observed.
- Inclusion of Directors’ Report, CEO statement and Statement of Compliance with Code of Corporate Governance in annual Financial Statements would enhance public disclosures.

- Trade execution mechanism is considered sound while reporting of the same is available online to customers.
- Risk disclosure document is shared with all customers.
- Placement of updated daily market research reports and trading related reports on website would enhance the client service.



- IT infrastructure and related policies are considered sound.
- Fully integrated IT infrastructure is in place.
- More frequent DR exercises may minimize the operational risk and ensure continuity of business.

- Compliance, Risk Management and Internal Audit are functioning independently.
- Appointment of independent head of internal audit augers well for the overall risk management.
- Trade review procedures are in place and personal trades are now reviewed on monthly basis.
- The company does not carry proprietary book.

- Operating losses were incurred during FY18 and HFY19. However, quantum of losses has reduced during HFY19 due to cost rationalization initiatives undertaken by the management.
- Diversification in to advisory, underwriting and other services may reduce business risk and enhance revenue generation.

**MANAGEMENT QUALITY SCALE & DEFINITIONS**

**Appendix I**

**VIS** Credit Rating Company Limited

**RATING SCALE & DEFINITIONS: BROKER MANAGEMENT RATING**

**BMR1A**

Excellent regulatory compliance, control environment, and financial management; governance and risk management frameworks are extremely effective; HR, IT, and customer services are strongly proactive.

**BMR3++, BMR3+, BMR3**

Adequate regulatory compliance, control environment, and financial management; governance and risk management frameworks are satisfactory; HR, IT, and customer services are adequate.

**BMR1++, BMR1+, BMR1**

Strong regulatory compliance, control environment, and financial management; governance and risk management frameworks are highly effective; HR, IT, and customer services are highly proactive.

**BMR4++, BMR4+, BMR4**

Inadequate regulatory compliance, control environment, and financial management; governance and risk management frameworks need improvements; HR, IT, and customer services are insufficient.

**BMR2++, BMR2+, BMR2**

Sound regulatory compliance, control environment, and financial management; governance and risk management frameworks are effective; HR, IT, and customer services are proactive.

**BMR5**

Weak regulatory compliance and business practices

**Rating Outlooks:**

The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.com.pk/images/criteria_outlook.pdf)

REGULATORY DISCLOSURES		Appendix II		
<b>Name of Rated Entity</b>	Foundation Securities (Private) Limited			
<b>Sector</b>	Brokerage			
<b>Type of Relationship</b>	Solicited			
<b>Purpose of Rating</b>	Broker Management Rating (BMR)			
<b>Rating History</b>	<b>Rating Date</b>	<b>Rating</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b>RATING TYPE: BMR</b>			
	10/07/2019	BMR2	Stable	Reaffirmed
	28/05/2018	BMR2	Stable	Initial
<b>Instrument Structure</b>	N/A			
<b>Statement by the Rating Team</b>	VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.			
<b>Probability of Default</b>	VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.			
<b>Disclaimer</b>	Information herein was obtained from sources believed to be accurate and reliable; however, VIS does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. VIS is not an NRSRO and its ratings are not NRSRO credit ratings. Copyright 2019 VIS Credit Rating Company Limited. All rights reserved. Contents may be used by news media with credit to VIS.			