



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
(Licensing & Capital Issue Department)

Through Courier

Before The Director / HOD (LCID)

In the matter of Show Cause Notice dated December 17, 2015 issued to Ismail Iqbal Securities (Private) Limited under Section 22 of the Securities and Exchange Ordinance, 1969

Date of Hearing:

January 07, 2016

Present at the Hearing:

Representing Ismail Iqbal Securities (Pvt.) Limited

i. Mr. Muneeb Ahmed

Authorized Representative

Assisting the Director/HOD (LCID)

i. Mr. Muhammad Farooq Bhatti

Additional Director, LCID

ii. Mr. Muhammad Arshad

Joint Director, LCID

iii. Ms. Asima Wajid

Deputy Director, LCID

ORDER

1. This Order shall dispose of the proceeding initiated through Show Cause Notice ("SCN") dated December 17, 2015 issued to Ismail Iqbal Securities (Pvt.) Limited ("**the Respondent**") under Section 22 of the Securities and Exchange Ordinance, 1969 ("**the SE Ordinance**").
2. The brief facts of the case are that the Respondent is a Trading Right Entitlement Certificate holder of Pakistan Stock Exchange Limited (Formerly Karachi Stock Exchange Limited) ("**the PSX**") and is registered with the Securities & Exchange Commission of Pakistan ("**the Commission**") as a broker under the Brokers and Agents Registration Rules, 2001 ("**the BR Rules**") since September 20, 2004.
3. The Commission received a complaint from Ms. Sonia Karim, ("**the Complainant**") alleging that a person with name of Mr. Armaghan Khalil (CNIC No. 35401-3689266-5) has opened several fraudulent joint accounts and CDC sub accounts with Mr. Abid Karim (i.e. the Complainant's father) over the past one year. The Complainant informed that one of these accounts was opened with the Respondent.
4. In this regard, details of the account were sought from the Respondent. Examination of the account opening form revealed that a joint account was opened by the Respondent under the name of Mr. Armaghan Khalil and Mr. Abid Karim. Further a CDC sub account was also opened in the name of Mr. Armaghan Khalil and Mr. Abid Karim by

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the Respondent. Review of the account opening form revealed that no Know Your Customer ("KYC") and Customer Due Diligence ("CDD") was conducted by the Respondent with respect to Mr. Abid Karim.

5. It is pertinent to mention here that regulation 4.18 of the Rule Book of PSX made under the SE Ordinance provides that:

"The Brokers shall formulate and implement an effective Know Your Customer (KYC) and Customer Due Diligence (CDD) internal policy and framework in accordance with the guidelines issued by the Exchange, with the prior approval of the Commission and any notices or circulars issued by the Commission from time to time. The KYC and CDD policy should be approved by the Board of Directors of the Broker, if it is a Corporate Brokerage House, and must be appropriately communicated to every agents and branches of the Broker. The Brokers shall also ensure that the above-mentioned policies are effectively disseminated to and understood by the relevant personnel"

Moreover, guideline 3.9 of the guidelines for brokers for developing effective KYC and CDD policies and procedures notified by the PSX on March 16, 2012 provides that:

"In general, physical presence of the account opener/authorized representative is necessary at the time of opening a brokerage account. In the case of non-resident/overseas customers or customers in other cities where the broker does not have a branch/office, more strong identity verification procedures should be applied. These include verification by a reliable third party, reference of an existing customer of the broker, confirmation from another broker with whom the customer had an account etc."

In the light of the facts mentioned above, prima facie it appeared that the Respondent failed to comply with the provisions of Rule Book of PSX; therefore, the SCN was issued to the Respondent under Section 22 of the SE Ordinance.

6. The said matter was fixed for hearing on January 1, 2016 at the Commission Office, Islamabad. However, on the date of hearing a written statement on behalf of the Respondent was received in the Commission from Baker Tilly Mehmood Idrees Qamar Chartered Accountants ("**Authorized Representative**") of the Respondent. The same is reproduced as under:

"This refers to your show cause notice SM/BRK-183/1/2015 dated December 17, 2015 in relation to our aforesaid client.

In your subject notice you have questioned the KYC and CDD practices and policies followed by our client, in the back drop of a complaint received by you



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from Ms. Sonia Karim alleging that a person with the name of Armaghan Khalil has opened several fraudulent joint trading accounts and CDC sub-accounts with Mr. Abid Karim (her father). Further, Mr. Armaghan Khalil, who was in possession of physical shares owned by Mr. Abid Karim and transferred them into CDC sub-account with the Brokerage House. She further provided the medical certificates regarding deteriorating health condition of her father due to which he was bed ridden.

First of all we would like to apologize for delay in responding to your show cause notice. We were approached by our client a little late and despite the fact that considerable time has been consumed to assimilate the facts, we tried our best to at least send you a written reply to your notice at the earliest. We, therefore, apologize for the inconvenience caused to you and seek your pardon for the same.

Hence, on behalf and upon instructions of our client, we would like to apprise you on the KYC and CDD procedures performed by our client in the ensuing paras:

Mr. Armaghan Provided our client physically duly filled account opening form along with the copies of his CNIC and that of Mr. Abid Karim.

Upon enquiry, it was revealed that no blood relation exists between the joint account holders. Hence proof of business relation was sought.

In reply Mr. Armaghan produced the copy of their partnership agreement carrying out their business, in the name of Sheikh Traders.

Upon the requirement of presence of Mr. Abid Karim, he excused for the same due to his illness disabling him to travel from Lahore to Karachi.

As a reliable reference from the third party, he produced the copies of bank statement maintained jointly by Mr. Armaghan and Mr. Abid Karim.

Under the circumstances, our client felt satisfied as far as the bonafide's of Mr. Armaghan and Mr. Abid Karim are concerned. This was also strengthened by subsequent transfer of shares by the CDC to the sub-account jointly opened with our client, for your perusal, we are pleased to attach the photocopies of partnership agreement.

It may kindly be noted our client is considered as one of the large brokerage house with a portfolio comprising of large corporate house and reputable high net worth local and international investors. Every possible effort is made to comply with all the requirements' of local regime including CDD and KYC. Parallel level of diligence was also endeavored to be followed in this case too. However, possibility of innocent and bonafide human error due to the pace of transactions and work load cannot be ruled out. Even the quantum and value of transactions as well as



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the potential commission income involved depicts the bonafides of our client when compared vis a vis the overall quantum of business carried out on a daily basis by our client.

Furthermore, this was a one off case experienced by the staff of our client as, usually; joint accounts are opened and maintained by the blood relations investors only. After having this experience, our client has now made a policy of not opening any joint accounts other than that of blood relatives. Additionally, appropriate steps have also been taken to further improve the existing KYC and CDD procedures going forward.

We hope the above will satisfy your concern and we seek your favourable consideration by way of going extension in the date of hearing and also condoning bonafide lapses, if any."

7. On request of the Authorized Representative, the hearing into the matter was re-scheduled for January 7, 2016. On the date of hearing, Authorized Representative appeared before the under signed and took the same stance as submitted through written statement. During hearing, the department representative informed that the Respondent did not take any steps for KYC and CDD with regard to Mr. Abid Karim (Late). The signatures of Mr. Abid Karim (Late) appearing on the account opening form and partnership agreement did not match with the signatures of Mr. Abid Karim (Late) appearing on his CNIC. The departmental representative was of the view that the Respondent should have inquired about the difference in signatures at the time of opening of trading account. The department representatives further added that since Mr. Abid Karim (Late) was a resident of Lahore, the Respondent was required to have applied robust identity verification procedures such as confirmation in writing from Mr. Abid Karim (Late) regarding his willingness for opening of the account, verification from a reliable third party, reference of an existing customer of the broker, confirmation from another broker with whom Mr. Abid Karim (Late) had an account etc. At the end of the hearing, the Authorized Representative admitted the mistake on part of the Respondent and informed that the Respondent has assured to further strengthen its KYC and CDD policies and procedures. Authorized Representative further prayed that the since the mistake was unintentional, therefore, a lenient view may kindly be taken.
8. I have examined the facts, evidences, and documents on record and the written and verbal submissions made by the Respondent. The Respondent has committed a violation of the regulatory framework and is therefore liable to penal action under section 22 of the SE Ordinance.
9. The Respondent should be aware of the fact that KYC and CDD are becoming much more important globally for preventing identity theft, financial frauds, money laundering and terrorist financing. I, therefore, strongly advise the Respondent to implement its CDD and KYC policy and procedures in letter and spirit, as effective




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implementation would safeguard it from being used for money laundering and other illegal activities.

10. I have taken into account the enforcement actions initiated by the Commission against the Respondent in the past. LCI Department of Securities Market Division has affirmed that previously no administrative action has been taken against the Respondent. I have taken into consideration the assurance of the Respondent to further strengthen its KYC and CDD policies and procedures.
11. In view of the facts stated above, in exercise of power conferred upon me under Section 22 of the Ordinance, I hereby impose a token penalty of Rs 50,000/- on the Respondent. The Respondent is further advised to ensure strict compliance of regulatory framework, in future.
12. The matter is disposed of in the above manner and the Respondent is directed to deposit the penalty in the account of the Commission being maintained with designated branches of MCB Bank Ltd not later than thirty (30) days from the date of this order and furnish a copy of the deposit challan to this office.
13. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matter subsequently investigated or otherwise brought to the knowledge of the Commission.


(Nasir Askar)
Director/HOD (LCID)

Announced on January 19, 2016
Islamabad.

Copy to: Managing Director,
Pakistan Stock Exchange Limited
(Formerly Karachi Stock Exchange Limited)

