

Before Amir M. Khan Afridi, Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Memon Securities (Pvt.) Limited

Dates of Hearing

February 10, 2021

April 21, 2021

Order-Redacted Version

Order dated April 28, 2021 was passed by Director/Head of Department (Adjudication-I) in the matter of Memon Securities (Pvt.) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated January 12, 2021.
2. Name of Respondent	Memon Securities (Pvt.) Limited (the Respondent)
3. Nature of Offence	<u>Alleged contraventions of regulation 3(1)(a)(b) & (c), 4(a) of Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (AML Regulations) read with Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the Act).</u>
4. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have examined the written and oral submissions of the Respondent. In this regard, I observe that:</p> <p>i. With regard to high-risk categorization of its clients, the Respondent submitted that most of these clients do not necessarily reside in high-risk jurisdiction areas but are employed/ working in Karachi or their correspondence addressed belong to high-risk jurisdictions. The Respondent provided details of these accounts wherein it was observed that the 2 out the 7 clients were subsequently classified as high-risk based on the observation of the inspection team. For the remaining client accounts, the Respondent has provided justification in its reply to the SCN. the Respondent also provided that the risk categorization of these clients was based on the Respondent's internal assessment based on his/her/its KYC information and verification of supporting documents. The Respondent contended that it is their discretion to</p>

categorize their clients as per their own risk assessment and the same issue was also raised during Commission's awareness session held in December, 2020 wherein it was agreed that it should be the Respondent's prerogative to categorize their customers as either high, medium or low risk based on their internal KYC assessments. The contention of Respondent in this regard is tenable as permanent address on the CNIC or correspondence addresses should not be merits to classify these customers as high risk rather the Respondent should conduct their own due diligence and also document the process which should form the basis of risk categorization of the clients. Therefore, the Respondent is found accountable for contravention of regulation 3(1)(a), (b) & (c) of the AML Regulations in only 2 instances wherein the risk categorization has been changed to high-risk subsequent to the observation by the inspection team. Whereas, for the remaining 5 client accounts, the Respondent's arguments are found to be satisfactory.

- ii. With regard to the deficiencies in its AML/CFT policy, the Respondent contended that these points were sufficiently addressed in their policy as provided to the inspection team. In this regard, the AML/CFT policy of the Respondent as submitted to the inspection team was reviewed and it was observed that Point i and ii of 3(b) of the SCN were covered under its policy. However, point iii and iv which belongs to NRA 2019 were not covered under its AML/CFT policy in detail. Therefore, the Respondent is found to be in contravention of regulation 4(a) of the AML Regulations. Further, the compliance officer of the Respondent is also held accountable in terms of regulation 18(c)(iii) of the AML Regulations.

In view of the foregoing and admission made by the Representatives, contraventions of the provisions of AML Regulations have been established. Therefore, in terms of powers conferred under Section 40A of the Act, a penalty of Rs. 260,000/- (Rupees Two Hundred and Sixty thousand only) is hereby imposed on the Respondent. The Respondent is directed to deposit the aforesaid penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days of date this Order and furnish the original deposit challan to this Office. Further, the compliance officer of the Respondent is strictly advised to ensure that its AML/CFT

	policy is being updated in a timely manner as per the requirements of the AML Regulations and any circulars and updates etc.
5. Penalty Imposed	Rs. 260,000/-
6. Current Status of Order	Penalty not deposited and Appeal has been filed by the respondent.