

Before Shauzab Ali, Commissioner (SMD)

In the matter of Show Cause Notice issued to Axis Global Limited

Date of Hearing

June 26, 2019

Order-Redacted Version

Order dated July 17, 2019 was passed by Commissioner (SMD) in the matter of Axis Global Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated June 17, 2019
2. Name of Company	Axis Global Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. Axis Global Limited
4. Nature of Offence	In view of alleged violations of Anti Money Laundering Regulations, 2018, proceedings were initiated in terms of section 40A (specifically for the violation of Regulation 4(a), Regulation 4(d), Regulation 13, Regulation 6(2), Regulation 9(3), Regulation 11(2) and Regulation 18(c)) of the Securities and Exchange Commission of Pakistan Act, 1997 through SCN dated June 17, 2019 and order dated July 17, 2019 was passed.
5. Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have examined the submissions made in writing and during the hearing as well as issues highlighted in the show cause notice and requirements of the AML Regulations, 2018. The facts of the case may be summarized as under:</p> <p>1. In regard to its failure to assign risk rating to 28 (twenty eight) of its clients, the Respondent argued that it has assigned risk rating to such clients in its back office system. The Respondent, however, did not contend that it had not assigned any risk rating in KYC/CDD forms which reflects</p>



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that these clients were not assigned risk rating at the time of opening of accounts. Therefore, the response of Respondent is not found cogent.

2. In regard to its failure to perform CDD of its clients, the Respondent argued that it had provided information relating to sources of income to the Inspection team and provided documents such as financial returns, undertakings and credential certificates etc. Review of documents provided by the Respondent suggests that information of only six clients was submitted out of eighteen clients. Further information of two out of these six clients was obtained after the Inspection. Gathering of such information post Inspection does not undo the default of the Respondent. Such information is required to be obtained at the time of establishing business relationship with clients.

3. The Respondent contended that it has a system based mechanism of monitoring of its clients. Further, it was submitted that mechanism of ongoing monitoring of its clients is covered in AML/CFT policy. The requirement of ongoing monitoring of customers to ensure that the transactions are consistent with its knowledge is, not merely met, by formulating a policy without mechanism for its practical implementation. Moreover, it transpires from the deficiencies observed during the Inspection, such as failure to gather vital information for ongoing monitoring including source of funds and not assigning risk ratings at the time of establishing business relationship etc., that there is no mechanism for ongoing monitoring in place. Therefore, I am not convinced with the argument of the Respondent.

4. In regard to its failure to conduct EDD of eight of its clients, the Respondent either submitted that EDD was not required or that clients were categorized as high risk based on EDD process. Firstly, assigning risk ratings to clients is outcome of CDD rather than EDD. Secondly, if as an outcome of CDD, a client is marked as high risk than a regulated person is required to perform EDD which includes obtaining approval of senior management to establish or continue. Respondent admitted that it established after the inspection. Requirement to have independent business relationship, establishing source of wealth/funds and enhanced monitoring of business relationship with high risk clients. The Respondent



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	<p>did not contend its failure to obtain approval of its senior management to establish or continue business relationship with high risk clients. Therefore, the argument of the Respondent does not hold merit.</p> <p>5. The Respondent contended that it has independent audit function. However, when asked during the hearing as to when independent audit function was established, the Respondent admitted that it established after the Inspection. Requirement to have independent audit function is not new as the same exists in Securities Broker (Licensing & Operations) Regulations, 2016. Therefore, establishing an audit function post inspection does not undo the default of the Respondent.</p> <p>6. In regard to its failure to document the decision to rate its customers as low risk, the Respondent argued that JIT had not highlighted said observation in its finding. However, it was observed that the same was shared with Respondent in serial number 4 of Annexure-I attached to letter dated May 27, 2019. Therefore, contention of Respondent does not hold merit.</p> <p>Penalty order dated 17 July, 2019 was passed by Commissioner (SMD).</p>
6. Penalty Imposed	A penalty of Rs.300,000/- (Rupees three hundred thousand) was imposed on the Company. Moreover, it was directed to implement measures to manage risks of AML/CFT.
7. Current Status of Order	Appeal was filed before Appellate Bench of the Commission.

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