



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I  
Adjudication Division

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to Time Securities (Private) Limited

Date of Hearing

November 12, 2019

Present at the Hearing

Representing Time Securities (Pvt.) Ltd.

i. Mr. Muhammad Anis Silal  
(CEO)

ii. Mr. Muhammad Waqas  
(Compliance Officer)

## ORDER

This Order shall dispose of the proceedings initiated against Time Securities (Pvt.) Limited (the "**Respondent**") through Show Cause Notice No. 1(177) SMD/ADJ/KI II/2019, dated October 25, 2019 (the "**SCN**") issued under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the "**Act**") and Section 150 of the Securities Act, 2015 (the "**Securities Act**").

2. Brief facts of the case are as follows:

(a) The Respondent is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (the "**PSX**") and licensed as a securities broker under the Securities Act.

(b) Thematic review (the "**Review**") of the Respondent was conducted by the Commission to ascertain compliance with requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "**AML Regulations**"). Subsequently, findings of the Review were shared with the respondent vide letter dated July 15, 2019.



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3. The Review revealed non-compliances with the AML Regulations & Securities Brokers (Licensing & Operations) Regulations, 2016 ("Licensing Regulations"); detailed as under:

a. Following deficiencies were noted in the AML/CFT Policy of the Respondent:

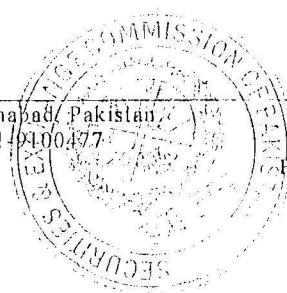
- i. Risk Assessment
- ii. Risk mitigation and application of risk based approach
- iii. New products, practice and technologies
- iv. Customer Due Diligence
- v. Enhanced Due Diligence
- vi. Beneficial ownership
- vii. Politically Exposed Persons
- viii. Simplified Due Diligence
- ix. Ongoing monitoring
- x. Reporting of Currency Transaction Report
- xi. Reporting of Suspicious Transaction Report
- xii. Record Keeping
- xiii. Compliance officer
- xiv. Screening & Training

The above reflects that the Respondent was noncompliant with Regulation 4(a) and Regulation 18(c) of the AML Regulations.

b. The Respondent had not established an independent compliance function. Further, the compliance reports of the Respondent were counter signed by the Chief Executive Officer in contravention of Regulation 18 of AML Regulations which requires a regulated person to have an independent compliance function with direct reporting to the Board of Directors and clause 16(9)(e) of Securities Brokers (Licensing and Operations) Regulations, 2016 (the "Licensing Regulations").

c. The internal audit report of the Respondent was counter signed by the Chief Executive Officer and does not cover aspects detailed in clause 15(a) of the AML/CFT Guidelines. Further, it had not conducted periodic/annual review of the internal control systems. It reflects that the Respondent had not developed an effective and independent audit function in violation of Regulation 4(d) of AML Regulations and Regulation 16(9)(e) and 16(9)(f) of Licensing Regulations.

d. The Respondent failed to chalk out and implement suitable training program for its employees in contravention of Regulation 20(b) of AML Regulations, which requires that a regulated person shall chalk out and implement suitable training program for relevant employees on annual basis, in order to effectively implement the regulatory requirements and regulated person own policies and procedures relating to AML/ CFT.





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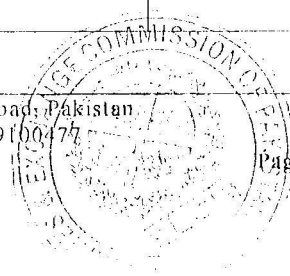
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4. In view of the aforesaid, the Respondent *prima facie* acted in contravention of the AML Regulations & Licensing Regulations. The Commission therefore took cognizance of the aforesaid violations, issued SCN dated October 25, 2019 to the Respondent. The Respondent vide its letter dated November 15, 2019 submitted reply to the SCN, which is reproduced below:

*"With reference to our hearing dated November 12, 2019, at 3:40PM regarding show cause notice u/s 40A of the Securities & Exchange Commission of Pakistan Act 1997 & Section 150 of the Securities Act 2015 dated October 25, 2019 No. 1(177) SMD/ADJ/KHI/2019. In this regards we hereby submits requirement info/doc OR SUPPORT'S as Follows:-*

Observation	Response	Support	Reference
(a) The Anti Money Laundering/Know Your Customer (AML/KYC) policy was not updated so as to meet the requirements of the AML Regulations in contravention of Regulation 4(a) of the AML Regulations which requires that a regulated person shall develop and implement policies, procedures and controls, which are approved by its board of directors.	ALREADY SUBMITTED COPY OF RECEIVING ATTACHED	COPY OF COVERING LETTER	ANNEXURE 1
(B) The Respondent has not established an independent compliance function. Further, the compliance reports of the Respondent were countersigned by the Chief Executive Officer in contravention of Regulation 18 of AML Regulations	As per our understanding of regulation 18 of AML Regulation it allow us to sign report of compliance by CEO as holding senior executive position and also on behalf of BOD For Reference Extract from AML Regulation is reproduced here under:  "18. Appointment of Compliance Officer.- Regulated person Shall-	Copy of SECP certified Form A & Form 29.	ANNEXURE '2'



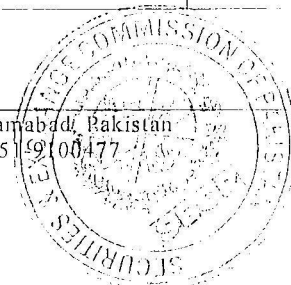


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<i>which requires a regulated person to have an independent compliance function with direct reporting to the Board of Directors and clause 16(9)(e) of Securities Brokers (Licensing and Operations) Regulations, 2016 (the "Licensing Regulations").</i>	<i>(a) Appoint a management level officer as compliance officer, who shall report directly to the board of directors or to another equivalent executive position or committee."</i>  <i>Please Find Attached Support to confirm shareholding. Directorship And Senior Management Position of Mr. Anis Silat (CEO) Thus its reflect independent Compliance function implementation.</i>		
<i>C) The Internal audit report of the Respondent was counter signed by the Chief Executive Officer and does not cover aspects detailed in clause 15(a) of the AML/CFT Guidelines. Further, it had not conducted periodic/annual of the Internal control systems. It reflects that the Respondent has not developed an effective and independent audit function in violation of Regulation 4(d) of AML Regulations and Regulation 16(9)(e) and 16(9)(f)</i>	<i>We refer to our response against observation (b) which clarifies signature - of CEO Over Internal Audit Report Further as discussed in hearing we here by attached Extract of Resolution of BOD Meeting through which Instruction to Comply with AML/CFT regulation in letter a sprits given to all relevant dept. Hence, we believe that our audit and Compliance Department are working effectively and independently.</i>	<i>EXTRACT OF BOARD RESOLUTION</i>	<i>ANNEXURE (3)</i>





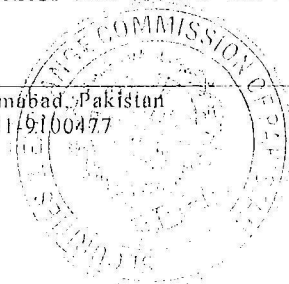
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<i>Licensing Regulations.</i>			
<i>(D) The Respondent failed to chalk out and implement suitable training program for its employees in contravention of Regulation 20(b) of AML, Regulations, which requires that a regulated person shall chalk out and implement suitable program for relevant employees on annual basis, in order to effectively implement the regulatory requirements and regulated person own policies and procedures relating to AML/CFT.</i>	<i>Proof of Implementing Suitable training program is attached herewith. It may please be noted that Regulation 20(6) requires us to arrange training programs on annual basis However Guideline's in this regard's was issued in Sept. 18 Therefore subsequently we arranged our training sessions on following dates.</i>	<i>MEMORANDUM AND ATTENDANCE SHEETS</i>	<i>ANNEXURE 4</i>

5. The Respondent was accorded hearing opportunity on November 12, 2019. The hearing was attended by Mr. Muhammad Anis Silat (CEO) & Mr. Muhammad Waqas (Compliance Officer) as Authorized Representatives. During the hearing proceedings, the Authorized Representatives reiterated the argument as submitted in response to the SCN.

6. I have examined the submissions of the Respondent and its Representatives. In this regard, I observe that:

- a. The deficiencies in AML/CFT Policy, the Respondent vide its letter dated July 22, 2019 accepted the observations and submitted that its policy has been updated after the observation was highlighted by the Commission. The primary step to ensure effective implementation of the AML Regulations is to develop a comprehensive AML/CFT Policy which covers all aspects of the AML Regulations. The deficiencies in policies, controls and procedures related to AML/CFT or violation of Regulation 4(a) of the AML Regulations. Further, it also construes as negligence on behalf of the Respondent and its compliance officer who is responsible to monitor and review the AML/CFT



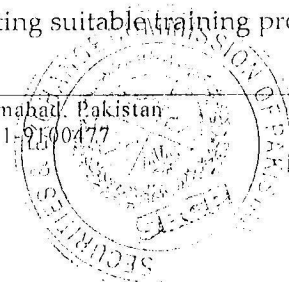


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policies and procedures and highlight any shortcomings therefore, the Respondent was also found non-compliant with Regulation 18(c)(iii) of the AML Regulations. The requirements regarding policy are contained in Regulation 4(a) of the AML Regulations and the default thereof is admitted. Furthermore, non-existence of policy is also indicative of the fact that the formulation and implementation of procedures to achieve the policy objectives have also not been prepared and adopted. Lack of sufficient measures and controls in place to ensure compliance with the AML regulatory framework makes the Respondent liable under Regulation 4(a) and 18(c) of the AML Regulations. Moreover, it may be noted that the review was conducted in February, 2019 which is almost eight months after the issuance of the regulations, i.e. June 2018. However, the policy was not updated till the time of review. Therefore, I am of the considered view that a year delay indicates weakness in responsiveness on the part of management of the Respondent.

- b. In case of observation regarding compromise of independence of compliance function on account of co-signing of compliance report by Chief Executive along with Compliance Officer, it needs to be noticed that Regulation 18(a) of the AML Regulations requires reporting of Compliance Officer to the Board of Directors or to another equivalent executive position. Chief Executive Officer is a deemed director who holds an executive position in Respondent, therefore the observation in Review is not tenable.
- c. Regarding the independence of audit function, the Respondent during the hearing agreed to the deficiencies highlighted in its internal audit report. Further, the Respondent provided that they conduct internal audit on half-yearly basis and submitted its internal audit report for half-year ended December, 2018. However, no internal audit report has been submitted for 2019. The internal audit report of the Respondent was also co-signed by its Chief Executive Officer in contravention with Regulation 16(9)(f) of the Licensing Regulations which requires its independent audit function to have direct reporting to the Board of Directors or Audit Committee. This raises concern regarding the independence and effectiveness of internal audit function and its ability to test the AML/CFT systems. Therefore, the Respondent was found non-compliant with Regulation 4(d) of the AML Regulations & 16(9)(e) & 16(9)(f) of the Licensing Regulations.
- d. With regard to the observation regarding non-development and implementation suitable training program for its employees, the Respondent vide its letter dated November 15, 2019 submitted the proof of implementing suitable training program of





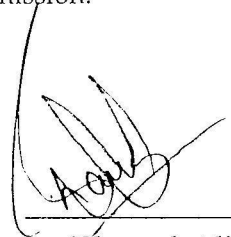
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its employees, which includes copy of their internal memo dated March 29, 2019 indicating that a training was held on April 03, 2019 (After the date of Review), copy of attendance sheet containing signature of 24 individuals. The said letter is not a sufficient proof of evidence without its supporting documents like payment invoice, engagement letter and pictures of event. Therefore, the Respondent was found non-compliant with Regulation 20(b) of the AML Regulations.

7. In view of the foregoing and admission made by the Representatives, contraventions of the provisions of AML Regulations & Licensing Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 50,000/- (Rupees Fifty thousand only) is hereby imposed on the Respondent. Further, in terms of powers conferred under section 150 of the Securities Act 2015, a penalty of Rs. 150,000/- (Rupees One hundred and fifty thousand only) is also imposed on the Respondent. The Respondent is advised to examine its AML/CFT policy & procedures to ensure that the requirements contained in the AML Regulations are met in letter and spirit.

8. 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 the date of this Order and furnish Original Deposit Challan to this office.

9. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on the matter subsequently investigated or otherwise brought to the knowledge of the Commission.

  
(Shauzab Ali)  
Commissioner (SMD)

April 13  
Announced on March , 2019  
Islamabad

