



Securities and Exchange Commission of Pakistan

Adjudication Division
Adjudication Department 1

Through Courier

Before the Executive Director

In the matter of Show Cause Notice issued to M/s. BIPL Securities Limited

Date of Hearing	December 24, 2019
Present at the Hearing	i. Mr. Muhammad Raza Hirani (Head of Operations)
Representing BIPL Securities Limited	ii. Ms. Ayesha Javaid (Assistant Manager)
	iii. Mr. Abdul Aziz Anis (Chief Executive Officer)
	iv. Mr. Zafar Ahmed Khan (Chief Financial Officer)
	v. Mr. Muhammad Zubair (Assistant Manager Compliance)

ORDER

This Order shall dispose of the proceedings initiated against the BIPL Securities Limited (the “Respondent”) through Show Cause Notice No. 1(148)SMD/ADJ-1/KHI/2019, dated December 16, 2019 (the “SCN”) under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the “Act”).

2. Brief facts of the case are as follows:

- 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, 2015.
- The inspection (the “Inspection”) 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”).

3. The Commission served the SCN to the Respondent requiring to explain its stance in person on December 24, 2019 on *prima facie* contraventions of AML Regulations, detailed as under:

- Regulation 11(2) of the AML Regulations requires that the decision to rate a customer as low risk shall be justified in writing. It was revealed that the Respondent failed to provide evidence of recording justification for categorizing of its customers as low risk, in violation of Regulation 11(2) of the AML Regulations. Furthermore, the Respondent admitted the said violation in response to the Letter of Finding (LOF).
- Regulation 13(3) of the AML Regulations states that regulated person shall periodically



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review the adequacy of customer information obtained in respect of customers and beneficial owners and ensure that the information is kept up to date and relevant, by undertaking reviews of the existing records, particularly for higher risk categories of customers and the review period and procedures thereof should be defined by regulated person in their AML/CFT policies, as per risk-based approach. It was revealed that the Respondent was not maintaining the up to date information of clients and the beneficial owners, in violation of the Regulation 13(3) of the AML Regulations. The Respondent admitted the said default while responding to LOF, wherein, it was submitted that practice to obtain the updated documents from approximately 8,500 active customers was initiated by the Respondent in October 2019 and till date only approximately 500 clients have submitted the requisite documents.

- iii. Regulation 4(a) of the AML Regulations requires a securities broker to develop and implement policies, procedures and controls, which are approved by its board of directors, to enable the securities broker to effectively manage and mitigate the risks that are identified in the risk assessment of ML/TF or notified by the Commission. It was revealed that screening process adopted by the Respondent did not have the capacity to search the name of every proscribed persons under Anti Terrorism Act, 1997, and from list of person designated by United Nation Security Council Resolutions adopted by Government of Pakistan. Furthermore, the Respondent did not have any system which can generate alerts about the expiry of client's CNIC, at least one month prior to their actual expiry date as stipulated in Notes to Annexure 1 of the Regulations. Therefore, Respondent was in contravention of the Regulation 4(a) of the AML Regulations on account of aforesaid defaults.
- iv. Regulation 13(7) stipulates that securities broker should monitor their relationships with the entities and individuals mentioned in sub-regulation (5a) of regulation 6, on a continuous basis and ensure that no such relationship exists directly or indirectly, through ultimate control of an account and where any such relationship is found, the regulated person shall take immediate action as per law, including freezing the funds and assets of such proscribed entity/individual and reporting to the Commission. It was revealed that the Respondent does not has a centralized database of Board of Directors/trustees /shareholders and authorized signatories etc. related to its clients, therefore, the Respondent did not screen these names in the entities and individuals covered in sub-regulation (5a) of regulation 6 at the time of establishment of relationship and continuing relationship with such customers, in violation of Regulation 13 (7) of AML Regulations.

4. The Respondent vide its letter dated December 20, 2019 submitted reply to the SCN, which is reproduced below:

".....The reply to the letter of finding of inspection team was submitted on November 20, 2019. However, it appears that somehow, our stance and documents provided earlier have been inadvertently missed.



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Our point wise reply on observations under point no. 3 of your letter is stated below:

3a.

With reference to noting the justification in writing in the account opening form as to why the customer is marked low risk, we would like to reiterate that the risk profiling checklist is a step by step process of how on what basis the customer was categorized as low risk. This checklist includes all the required justifications such as:

- The minimum required documents received,
 - Whether the customer is a non-resident, foreign or PEP,
 - Whether the beneficial owner is appearing in the sanctions data,
 - Whether the customer's income is from a cash intensive business,
 - Whether the beneficial owner or applicant is from high risk jurisdictions and so on.
- Therefore, in our viewpoint, the whole elaborated process to achieve low risk is already documented in filing checklist. (Please refer to Annexure A)

As we believe that the justification is already provided in the form of our risk profiling checklist, we, therefore, strongly deny the observations highlighted by the Commission in point 3a of SCN. However, in order to further justify the categorization, we will also write our justification in writing as to why the client was marked low risk.

3b.

With respect to our ongoing monitoring procedures, it appears that somehow our reasoning provided earlier has been misinterpreted. Keeping in view the importance of the Anti-Money Laundering Regulations, we ensure that we undertake all the necessary Enhanced Due Diligence and On-going monitoring procedures for high risk clients. AML Regulation was issued in August 31, 2018, subsequent to which we updated our Anti Money Laundering Policy and was approved by the Board in November 13, 2018. As specified in the FAQs issued by SECP dated April 12, 2019 on the Regulations, on-going monitoring of high risk clients should be done at least once a year. Therefore, as per these directives, we initiated our yearly client updating exercise for the year 2019 in October 2019, within the specified timeline by SECP. Hence, we took all the necessary steps to obtain updated information from all our as per the regulations.

Moreover, we would like to elaborate that all client transactions are monitored by both risk and compliance department. We have developed an in-house utility (Please refer to Annexure B) with the ability to provide details necessary to monitor the clients' transaction patterns and trading activities. These transactions are monitored by risk department every week. If any unusual transaction is highlighted, steps are taken to obtain additional information from the customer in support of the transaction and risk category is updated if the situation entails (Please refer to Annexure C). If any client risk is revised to high, approval is subsequently obtained from Senior Management to ensure compliance with the regulations. This on-going monitoring procedure is supplemented by compliance on a monthly basis. Further, internal audit department also conducts audits with respect to AML Regulations throughout the year. All these details with evidences were also previously provided to the inspection team.

We would further like to reiterate that given the above explanation, we have started our ongoing monitoring procedures since April 2019 and have been monitoring all active client account transactions. To further compliment these procedures, we initiated an exercise to obtain updated information from the clients as per the regulation for the year





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2019. Therefore, we would appreciate if the Commission could reconsider the observation as we have taken all the necessary steps to ensure that client information is updated and maintained.

3c (i)

We would like to reiterate that screening is being done for all clients at time of account opening from the list of NACTA, UNSC and Red Book. With respect to the screening of names during the inspection of Khan Muhammad and Saleh Muhammad, we would like the Honorable Commission to recognize the fact that we did perform our screening procedure in line with the AML Regulations which states that all clients are to be screened from the lists of UNSC/NACTA; however it is not in our control to ensure that the list of NACTA is updated as per the SROs. In addition to this, we would also like to mention that it is not practically possible for The Company to screen clients from every SRO received by SECP hence, the NACTA list is used and these two individuals are not appearing in the list. (Please refer to Annexure D)

3c (ii)

We would like to stress on the fact that at the time of inspection, our system to monitor expired CNICs was in test basis and these were being monitored on a timely basis with the help of reports extracted from the system provided by CDC, hence the risk was being monitored through the reports. Screenshot of the test system was also provided to the inspection team. (Please refer to Annexure E)

However, we would like to confirm that our new CNIC expiry alert system has been implemented since December, 2019. Through this systematic procedure, client CNICs which are to be expired in the current and next month will be sent an automated email and SMS. We will be intimated through a report highlighting which client received the emails and messages successfully. (Please refer to Annexure F) This utility will supplement the already existing reports extracted from the system provided by CDC. Therefore, the requirements of the Regulation regarding the above were being adequately fulfilled.

3d (i)

We would like to highlight that screening of directors, trustees, authorized signatories and shareholders of institutional clients was being done at the time of account opening manually. Hence, we would like to give you the assurance that monitoring was being done.

3d (ii)

Moreover, with respect to the database of trustees, directors, authorized signatories and shareholders, we would like to inform you that it is in test basis and will soon be implemented. (Please refer to Annexure G)

We would further like to highlight that we are in a continuous process of updating ourselves and improving our tools used for monitoring and to remain more vigilant to the risks of Money Laundering and Terrorist Financing. It will be highly appreciated if our efforts were recognized and the fact that changes in the system and software can





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take time as this is a shared task with the vendor could be taken into consideration."

5. The Respondent was accorded an opportunity of personal hearing dated December 24, 2019. The hearing was attended by Mr. Abdul Aziz Anis (Chief Executive Officer), Mr. Zafar Ahmed Khan (Chief Financial Officer), Mr. Muhammad Raza Hirani (Head of Operations), Ms. Ayesha Javaid (Assistant Manager Internal Audit) & Mr. Muhammad Zubair (Assistant Manager Compliance) 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 written as well as oral submissions of the Respondent and its Authorized Representatives. In this regard, I observe that:

- i. As required in Regulation 11(2), the Respondent has failed to furnish any evidence of recording justification for categorizing customers as low risk. The contention of the Respondent that risk profiling checklist also serve as a substitute of written justification required under the Regulation is not plausible. Authorized Representatives submitted that subsequent to identification of default, Respondent has started recording justifications for categorizing customers as low risk.
- ii. During the hearing, the Authorized Representatives submitted that Respondent has started its ongoing monitoring procedures since April 2019 and thereafter initiated an exercise to obtain updated information from the clients as per the regulation in October 2019. The Respondent reiterated the fact communicated earlier in its response to LOF that out of approximately 8,500 active customers till date only approximately 500 clients have submitted the requisite documents. Hence, the Respondent was not compliant with the Regulation 13(3) of AML Regulations which are applicable since June 2018.
- iii. Respondent admitted that automated process deployed for customer screening can only search in the list available on NACTA website and is not capable of fetching data from Portable Document Format (PDF) SROs available on NACTA website. Furthermore, the Respondent could not provide documentary proof evidencing that manual screening was being conducted in respect of such SROs in PDF format available on NACTA website. Further, Authorized Representatives has admitted that the system to monitor expired CNICs of its clients has been deployed in December 2019. Hence, the Respondent was in violation of Regulations 4(a) of AML Regulations.
- iv. Respondent admitted that its back-office system does not has provision to maintain database pertaining to name, CNIC and other details of directors, shareholders, trustees and partners etc. related to its clients, consequently Respondent could not screened these names in the entities and individuals covered in sub-regulation (5a) of regulation 6 at the time of establishment of relationship and continuing relationship with such customers. Authorized Representatives also informed that Respondent has developed the required functionality and the same is in test phase. In view of aforesaid, Respondent was in the violation of Regulation 13(7) of AML Regulations.

7. I have noted that Respondent has taken remedial measures on defaults identified during the Inspection. Moreover, Respondents did not engaged themselves in undue contest of the SCN.

8. 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. 300,000/- (Rupees Three hundred thousand)** is hereby 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.

[Handwritten signature]





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9. 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.

10. 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.



(Ali Azeem Ikram)

Executive Director (Adjudication Department-1)

Announced on January 7, 2020
Islamabad