



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

ORDER	
Name of Company	M/s. Azee Securities (Private) Limited
Number and Date of Show Cause Notice (SCN)	I(136)SMD/Adj-I/KHI/2018-101 dated October 1, 2024
Date(s) of Hearing(s)	(i) November 28, 2024; and (ii) December 12, 2024
Case represented by	Mr. Ghazi Naseem, Head of Compliance; (as the Authorized Representative.)
Provisions of law involved	Regulation 19(6), Regulations 9 read with Note (i) & (ii) of Annexure I and Regulation 21(2)(c) and (e) and Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 (the AML/CFT Regulations) read with Section 6(A)(2)(h) of the Anti-Money Laundering Act, 2010 (the AML Act) and Rules 4(1)(a) and 6(1) of the AML/ CFT Sanctions Rules, 2020 (the AML/CFT Rules) for failure to comply with Regulation 19(6), Regulations 9 read with Note (i) & (ii) of Annexure I and Regulation 21(2)(c) and (e) of the AML/CFT Regulations. The Company is a Trading Right Entitlement Certificate (TREC) holder of Pakistan Stock Exchange (PSX) and is licensed as securities broker by the Commission.

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (**the Commission**) through Show Cause Notice No. 1(136)SMD/Adj-I/KHI2018-101 dated October 01, 2024 (**the SCN**) against M/s. Azee Securities (Private) Limited (**the Company**) under Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 (**the AML/CFT Regulations**) read with Section 6(A)(2)(h) of the Anti-Money Laundering Act, 2010 (**the AML Act**) and Rules 4(1)(a) and 6(1) of the AML/ CFT Sanctions Rules, 2020 (**the AML/CFT Rules**) for failure to comply with Regulation 19(6), Regulations 9 read with Note (i) & (ii) of Annexure I and Regulation 21(2)(c) and (e) of the AML/CFT Regulations. The Company is a Trading Right Entitlement Certificate (TREC) holder of Pakistan Stock Exchange (**PSX**) and is licensed as securities broker by the Commission.

2. The brief facts of the matter are that an inspection vide order No. Y2023/Q1/204 dated September 13, 2023 was carried out by Joint Inspection Team (**JIT**) comprising officials from PSX, Central Depository Company of Pakistan Limited (**CDC**) and National Clearing Company of Pakistan Limited (**NCCPL**) for ascertaining the compliance status of the Company with the requirements of the AML/CFT Regulations for the period **January 01, 2023 to December 31, 2023** (**the Inspection Period**). The JIT shared its findings with the Company and comments received thereon were included in the Inspection Report dated July 09, 2024, which revealed that the Company has, *prima facie*, failed to comply with the following legal requirements:

- The Company failed to file a Suspicious Transaction Report (STR) or the basis/reason for not filing the STR against a client Mr. F. K. who deposited a significant cash amount of Rs. 12.45 million during the review period, in contravention to sub-regulation 6 of regulation 19 of the AML/CFT Regulations.
- The Company did not carry out the KYC/CDD to verify the identity of the following eight (08) main applicants and two (02) joint account holders of the clients, in contravention to regulation 9 read with Note (i) of Annexure-I of the AML/CFT Regulations.

Main Applicant

Sr. No.	Sub A/c. No
1	1848
2	34294
3	91716
4	101242
5	110961
6	112215

7	113536
8	114526

Joint Account Holders

Sr. No.	Sub A/c. No
1	91716
2	113536

- c. The Company failed to obtain the documents/ evidence with regard to source of funds/wealth for the following three (03) high-risk client. Further, it did not obtain senior management approval to commence or continue business with the following seven (07) high-risk clients, in contravention to Regulation 21(2)(c) and (e) of the AML/CFT Regulations.

Source of fund/wealth

Sr. No.	Sub A/c. No
1	49821
2	34294
3	126033

Senior Management Approval

Sr. No.	Sub A/c. No
1	34294
2	37305
3	49821
4	101242
5	110961
6	116950
7	126033

- d. The Company failed to carry out NADRA verisys in the following thirteen (13) of its clients in terms of Note (ii) of Annexure-1 read with regulation 9 of the AML/CFT Regulations.

Sr. No.	Sub A/c. No
1	1848
2	34294
3	37305
4	49821
5	101242
6	104097
7	110961
8	112215
9	114526
10	116950
11	122214
12	104097
13	126033

3. The mandatory legal provisions of the AML/CFT Regulations are reproduced as under:

"Regulation 9 of the AML/CFT Regulations:

"The regulated person shall:

(a) identify the customer; and

(b) verify the identity of that customer using reliable and independent documents, data and information as set out in Annex 1."

Note(i) and (ii) of Annexure I read with Regulation 9 of the AML/CFT Regulations:

"(i) For due diligence purposes, at the minimum following information shall also be obtained and recorded on KYC (Know Your Customer)/CDD form or account opening form:"

"(ii) The copies of identity documents shall be validated through NADRA verisys or Biometric Verification. The regulated person shall retain copy of NADRA verisys or Biometric Verification (hard or digitally) as a proof of obtaining identity from customer; and ..."

Regulation 19(6) of the AML/CFT Regulations:

"The basis of deciding whether an STR is being filed or not shall be documented and kept on record together with all internal findings and analysis done in relation to a suspicion irrespective of the fact that transaction is subsequently reported or not."

Regulation 21(2)(c) & (e) of the AML/CFT Regulations:

"(2) EDD measures include but shall not be limited to the following measures:

(c) obtaining information on the source of funds or source of wealth of the customer;

(e) obtaining the approval of senior management to commence or continue the business relationship;"

4. While taking cognizance of matter, a SCN was issued to the Company, calling upon it to show the cause in writing as to why penalty as provided under Regulation 31 of the AML/CFT Regulations read with Rules 4(1)(a) and 6(1) of the AML/CFT Rules and Section 6(A)(2)(h) of the AML Act, may not be imposed on it for contravening the above-mentioned provisions of the law. In response to the SCN, Mr. Amir Zia (CEO/Director of the Company) vide letter dated November 15, 2024, *inter alia*, submitted as under:

- (i) The Company primarily discourage receiving cash payments. However, under exceptional circumstances, they do accept cash and report it in accordance with the prescribed mechanism by the Securities Exchange. Regarding the instance involving Mr. F.K, who deposited an amount of PKR 12.45 million in multiple instances of 1 million each, they carried out Enhanced Due Diligence (EDD) of the account holder. Mr. F.K is an established high-net-worth client, and it is acknowledged that the transaction may not have been ideal, considering his past record and our understanding of the situation, they did not file an STR for this deposit.
- (ii) In respect of observation regarding Regulation (9) of the AML/CFT Regulations, necessary KYC / CDD documentation for the selected clients and joint holders have already been provided. The Company has made every effort to comply with all regulatory requirements, and the documentation provided which reflects our commitment to maintaining the highest standards of compliance in accordance with AML/CFT guidelines.
- (iii) In respect of observation regarding Regulation 21(2) and (e) of the AML/CFT Regulations, the necessary income proof and KYC/CDD Assessment Reports for the selected clients is attached for your reference and records.
- (iv) They entered into an agreement with NADRA (National Database and Registration Authority) in June 2021 to facilitate identity verification and due diligence in line with regulatory requirements. The clients under review were on-boarded before the implementation of NADRA's services. Furthermore, on 16th January 2024, the SECP issued a clarification to the Broker Association for Securities Brokers, exempting the requirement for NADRA screening for clients on-boarded. This clarification allows for the continued use of existing NCCPL screening mechanism, rather than NADRA's verification process.

5. In order to provide the Company an opportunity of personal representation, hearing in the matter was fixed for November 28, 2024 which was adjourned on the request of Mr. Ghazi Naseem (Head of Compliance of the Company) vide letter dated November 27, 2024 as Authorized Representative of the Company (the AR). Subsequently, matter was re-fixed for December 12, 2024 which was attended by the AR. The AR reiterated the same stance as taken in letter dated November 15, 2024.

6. I have examined the facts of the case in light of the applicable provisions of the law, written as well as verbal submissions and arguments of the AR. At this juncture, it is imperative to address the following legal and factual elements:

(i) With respect to the obligation to file the STR or the basis\ reason for not filing the STR concerning a client, Mr. F.K., who deposited a significant cash amount of Rs. 12.45 million during the review period, the Company failed to submit any evidence of having filed the STR or any documented basis for its decision not to file the STR.

(ii) With respect to the obligation to conduct KYC/CDD to verify the identity of eight (08) main applicants and two (02) joint account holders of the Company. The review of the submitted KYC/CDD documentation for the identified clients and joint holders, revealed that:

- a) KYC/CDD of clients with Sub A/c. No. 91716, 101242, and 110961 has been carried out prior to the inspection date, therefore, no action warranted.
- b) KYC/CDD of clients with Sub A/c. No. 34294 and 112215 are undated.
- c) KYC/CDD of clients with Sub A/c. No. 1848, 113536, and 114526 are carried out subsequent to the inspection date i.e. on September 5, 2024, October 10, 2023, and October 28, 2023, respectively.

In view of above it transpires that in respect of five (5) clients, the Company failed to carry out proper KYC documentation in a timely manner, thereby contravening Regulation 9 read with Note (i) of Annexure-I of the AML/CFT Regulations.

(iii) With respect to the obligation to obtain documentary evidence regarding the source of funds\wealth for three (03) high-risk clients of the Company. The review of the submitted documents for the identified clients, revealed that:

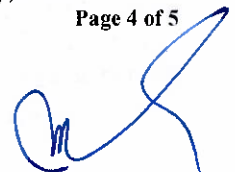
- a) In respect of client with Sub A/c. No. 34294 a photocopy of his service card has been provided from which his source of funds\wealth cannot be ascertained.
- b) In respect of client with Sub A/c. No. 49821 a photocopy of his premature retirement letter dated July 20, 2017 has been provided, from which his source of funds\wealth cannot be ascertained.
- c) In respect of client with Sub A/c. No. 126033 a photocopy of undated certificate of experience has been provided, from which his source of funds\wealth cannot be ascertained.

In view of above, it is established that in respect of aforesaid three (03) clients, the Company failed to provide any evidence to substantiate that it had obtained information regarding their source of funds\wealth. This failure to verify and document the clients' source of funds\wealth constitutes a violation of sub-regulation 2(c) of regulation 21 of the AML/CFT Regulations.

(iv) With respect to the obligation to provide senior management approval to commence or continue business with seven (07) high-risk clients of the Company. The review of the submitted documents for the identified clients, revealed that:

- a) The approved KYC/CDD Checklist for the clients with Sub A/c. No. 34294, 37305, 49821, 116950 and 126033 are undated was approved by the Head of Compliance without a documented date.
- b) The KYC/CDD Checklist for the client with Sub A/c. No. 101242 was approved by the Head of Compliance on September 20, 2024 i.e. subsequent to inspection.
- c) The KYC/CDD Checklist for the client with Sub A/c. No. 110961 not properly dated and only year of approval by the Head of Compliance is mentioned as "2024".

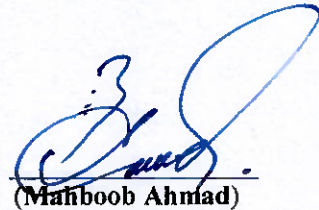
Accordingly, it was observed that in the case of seven (07) high-risk clients, the KYC/CDD Checklists approved by the Head of Compliance either undated or subsequent to inspection/properly dated. Further, at the time of inspection, the Company failed to provide any evidence of senior management approval, thereby contravening Sub-Regulation 2(e) of Regulation 21 of the AML/CFT Regulations.



(v) With respect to the obligation to conduct NADRA verisys of thirteen (13) clients, the Company's stance on this matter is not relevant, as the AML/CFT Regulations explicitly state that copies of identity documents shall be validated through NADRA verisys or Biometric Verification. Furthermore, the regulated entity is required to retain a copy of the NADRA verisys or Biometric Verification (either in hard copy or digital form) as proof of having obtained the customer's identity. However, the Company failed to submit any evidence of having conducted NADRA verisys prior to the inspection. This failure to comply with the prescribed verification process demonstrates that the Company did not fulfill its obligation to validate the identity of the aforementioned clients, thereby contravening Note (ii) of Annex I read with Regulation 9 of the AML/CFT Regulations.

7. In view of foregoing, non-compliances/contraventions of sub-regulation 6 of regulation 19, regulation 9 read with Note (i) & (ii) of Annexure I and sub-regulation 2(c) and (e) of regulation 21 of the AML/CFT Regulations have been established, which attract the applicability of regulation 31 of the AML/CFT Regulations read with Rules 4(1)(a) and 6(1) of the AML/CFT Rules and Section 6A(2)(h) of the AML Act. I, hereby, in terms of powers conferred upon me under Section 6A(2)(h) of the AML Act read with Regulation 31 of the AML/CFT Regulations, impose a penalty of **Rs. 550,000/- (Rupees Five Hundred Fifty Thousand only)** on the Company on account of established defaults.

8. The Company through its CEO is, hereby, directed to deposit the aforesaid amount of penalty in the designated bank account maintained in the name of the Commission with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and to furnish a receipted bank challan to the Commission forthwith. In case of failure to deposit the penalty, the proceedings under Section 485 of the Act will be initiated for recovery of the fines as arrears of land revenue pursuant to provision of Section 42 of the Securities and Exchange Commission of Pakistan Act, 1997.



(Mahboob Ahmad)

Additional Director / Head of Wing
Licensed Entities - Adjudication Department-I

Announced:
January 31, 2025
Islamabad

