



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I  
Adjudication Division

Through Courier

Before the Executive Director

In the matter of Show Cause Notice issued to M/s. Tannu Securities (Pvt.) Limited

Date of Hearing	July 10, 2020
Present at the Hearing	i. Mr. Muhammad Ali (Assistant Manager)
Representing Tannu Securities (Pvt.) Limited	ii. Syed Ahsan Ali Shah (Lawyer High Court)

## ORDER

This Order shall dispose of the proceedings initiated against the Tannu Securities (Pvt.) Limited (the “Respondent”) and its Compliance Officer through Show Cause Notice No. 2(229)/SMD/Adj-1/2020, dated April 27, 2020 (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:

- (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, 2015.
- (b) The limited scope 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”).

3. The Review revealed non-compliances with the AML Regulations; detailed as under:

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 to it by the Commission. Review of the AML/ CFT Policy of the Respondent revealed that the following deficiencies in violation of the said regulation:

- (a) The Respondent did not include the following requirements of the AML Regulations in its AML/CFT policy in violation of Regulation 4(a) of the AML Regulations.



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- i. Maintenance of list of accounts/customers where business relationship was refused or needed to be closed on account of negative verification as required under Regulation 6(9) of the AML Regulations.
  - ii. Where regulated person are not able to satisfactorily complete required customer due diligence (CDD) measures, account shall not be opened or existing business relationship shall be terminated and consideration shall be given if the circumstances are suspicious so as to warrant the filing of Suspicious Transaction Report (STR) in relation to the customer as required under Regulation 6(11) of the AML Regulations.
  - iii. Beneficial Ownership of Legal Persons and Legal Agreements not effectively covered to determine who ultimately control the legal person or have ultimate effective control of the legal person as required under Regulation 7 of the AML Regulations.
  - iv. Enhance Due Diligence (EDD) measures particularly relating to establishing, by appropriate means, the sources of wealth and/or funds or beneficial ownership of funds, as appropriate; including regulated person's own assessment to this effect are not covered as required in Regulation 9(4) of the AML Regulations.
  - v. Reporting of Transactions including 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 as required in Regulation 14(6) of the AML Regulations.
  - vi. High-risk classification factors does not include real estate dealers, dealers in precious metals and stones, and lawyers/ notaries as mentioned in AML guidelines.
- (b) Regulation 18(c)(ii) of the AML Regulations requires the Compliance Officer of the Respondent to ensure that the internal policies, procedures and controls for prevention of ML/TF are approved by the board of directors of the regulated person and are effectively implemented;
- (c) Regulation 18(c)(iii) requires the Compliance Officer of the Respondent shall primarily be responsible for the areas including, but not limited to monitoring, reviewing and updating its AML/CFT policies and procedures. Since, the areas highlighted in para (a)





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above were not incorporated in the Respondent's AML/CFT policy at the time of Review, therefore, Respondent and its Compliance Officer has contravened the requirements of the Regulation 18(c)(iii) of the AML Regulations.

4. It appeared from the preceding that the Respondent and its Compliance Officer *prima facie* acted in contravention of the AML Regulations. Accordingly, the Commission took cognizance of the aforementioned facts and served the SCN requiring the Respondent to submit its written reply within 14 days of the date of this notice. Reanda Haroon Zakaria & Company, Chartered Accounts on behalf of the Respondent vide its email dated July 09, 2020 submitted reply to the SCN, which is reproduced below:

*"We write on behalf of and on instructions from our client Tannu Securities Private Limited (hereinafter referred to as "our client(s)" and where the context requires will be deemed to include its successors-in interest, administrators and permitted assigns) based in Karachi, Pakistan.*

*Reference is made to your SCN No. 2(229)/SMD/Adj-I/2020-340. Please find the submissions below:*

A. *It is a fact that Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018 ("Regulations") are recent since they came in to force on 13<sup>th</sup> June, 2018. It is also pertinent to mention that multiple awareness sessions are still being conducted by not only the PSX but also by SECP. This evidences that these Regulations are fresh, and even the government bodies acknowledge and realize this and as such the awareness and training sessions are being held. As such to fully comply with the Regulations is an on-going process which will get better with time. Our client is fully committed in ensuring absolute compliance with the Regulations. As such it is prayed to consider this and no penalty shall be imposed.*

B. *That there is no mens rea involved. That our client has made all the efforts to subsequently comply with the required provisions of the Regulations.*

C. *It is fundamental conception of Company Law that where a warning is enough to warn a legal and/or natural person, then the warning is given, whereas, in our client's case there may have been a delay but there is not an iota of a doubt that our client is law abiding and as expressed in plethora of citations of Company Law, that the track record of the entity in question is always considered and given strong weightage. As such, it is requested that due leniency be shown to our client (reliance is placed upon 2017 CLD 1728).*

D. *Further, it is also stated that if the company has satisfactory compliance history, the same shall be taken as mitigating factor (reliance is placed upon 2018 CLD 1031).*

E. *That it is also stated based on stare decises as given in various judgments involving the SECP, that when a company is ready to comply with all the procedures subsequently, then this should be taken as a ground for leniency. In one of the judgments, the imposed penalty was converted to warning on this very aspect. (2017 CLD 1715). Further, in another case (2018 CLD 1211) penalty of PKR 100,000/- was condoned and a lenient view was taken based*







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*on assurance given by the company to be compliant in future.*

*F. It is also pertinent to mention that subsequent compliance was duly made by our client and as such lenient view shall be taken. This is further supported by the case (2018 CLD 44)."*

5. The Respondent and its Compliance Officer was accorded an opportunity of personal hearing dated July 10, 2020. The hearing was attended by Mr. Muhammad Ali (Assistant Manager) and Syed Ahsan Ali Shah (Lawyer High Court) 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. The primary justification extended by the Respondent for not having an updated AML policy was that the AML Regulations were new (promulgated in 2018) and reasonable time was not available to understand the compliance required. The explanation of the Respondent does not hold merit. While the AML Regulations were issued in 2018 but the requirements contained therein are not new. Rather the requirements were introduced in 2012 when Karachi Stock Exchange (presently PSX) with the approval of the Commission, through Regulation 4.18 of the Rule Book made it mandatory for the securities brokers to formulate and implement an effective KYC and CDD policy in accordance with the Know Your Customer and Customer Due Diligence Guidelines issued by the Exchange. A comparison of the regulatory framework of 2012 with AML Regulations does not reflect any material difference in terms of requirements. Further, the Review was initiated in month of February, 2019 i.e. eight months after the promulgation of AML Regulations. Therefore, the AML Regulations cannot be termed as new set of requirements and the argument of the Respondent that sufficient time was not available for compliance is untenable.
- ii. With regard the violation of Regulation 4(a) of the AML Regulations, the Respondent vide its letter dated July 16, 2019 has provided updated AML/CFT policy approved by its board of directors on July 11, 2019 showing that policy was amended/updated subsequent to deficiencies highlighted by the Review team. During the hearing and in reply to the SCN, the Authorized Representatives admitted the default.
- iii. The default of Regulation 18 c(ii) cannot be denied in view of facts mentioned above. Furthermore, Authorized Representatives also acknowledged the said violation during the hearing.
- iv. With regard the violation of Regulation 18 c(iii), the Authorized Representatives admitted the violation and contended that due to lack of time Respondent could not make the its AML policy





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in accordance with the AML Regulations. Authorized Representatives submitted that subsequent to the Review, compliance to the regulatory framework has been made..

7. In view of the foregoing and admission made by the Representatives, contraventions of the provisions Regulation 4(a), 18(c)(ii) and 18((c)(iii) of AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of **Rs.500,000/- (Rupees Five Hundred Thousand)** is hereby imposed on the Tannu Securities (Pvt.) Limited. However in reference to Regulation 18(c)(ii) and 18((c)(iii) of AML Regulations, Compliance office of the Respondent is warned to be careful in future. The Tannu Securities (Pvt.) Limited 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 Tannu Securities (Pvt.) Limited 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 Tannu Securities (Pvt.) Limited 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 July 14, 2020  
Islamabad