



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. Standard Capital Securities (Pvt.) Limited

Date of Hearing	February 12, 2020
Present at the Hearing	i. Mr. Naushad Chamdia (Chief Executive Officer)
Representing Standard Capital Securities (Pvt.) Limited	ii. Mr. Waqar Ahsan (Director Compliance)

ORDER

This Order shall dispose of the proceedings initiated against the Standard Capital Securities (Pvt) Limited (the “**Respondent**”) through Show Cause Notice No. 1(160)SMD/ADJ-1/KHI/2019, dated December 13, 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 Joint Inspection Team of PSX, Central Depository Company of Pakistan Limited and National Clearing Company of Pakistan Limited (herein after referred as “**JIT**”) conducted a thematic review of the Respondent (herein after referred as “**Review**”) to assess its compliance with the regulatory requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the “**AML Regulations**”).

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

- Regulation 4(a) of the AML Regulations requires a securities broker/future brokers 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. Furthermore, Regulation 13(7) of AML Regulations stipulates that a 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 did not perform screening of authorized person, beneficial owners, board of directors, trustees and office





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bearers in violation of the aforesaid Regulations of the AML Regulations. Moreover, Respondent could not exhibit a mechanism or a database as an evidence in its support.

(b) Regulation 6(2) requires that the regulated person shall apply Customer Due Diligence (CDD) measures when establishing business relationship with the customer and when there is doubt about the veracity or adequacy of previously obtained customer identification data. Regulation 6(3)(c) of the AML Regulations states that a CDD in broader term include monitoring of accounts/transactions on ongoing basis to ensure that the transactions being conducted are consistent with the regulated person knowledge of the customer, the customer's business and risk profile, including, the source of funds and, updating records and data/information to take prompt action when there is material departure from usual and expected activity through regular matching with information already available with regulated person. Similarly, Regulation 9(4)(b) which requires that Enhanced Due Diligence (EDD) measures by the broker should include establish, 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. It was revealed that in 02 instances Respondent did not provide evidence relating to the source of income of clients, therefore, contravened Regulation 6(3)(c) and 9(4)(b) of the AML Regulations.

(c) Regulation 6(4) of the AML Regulations requires a securities/futures broker to obtain such documents from different types of customers as provided in Annexure-I. It was revealed that the Respondent did not validate the identity documents of its customers i.e. 6 Main Account Holders, 2 Joint Account Holder, 6 Nominees and 3 Directors, in violation of Regulation 6(4) of AML Regulations.

(d) Regulation 6(3)(a) of the AML Regulations requires a securities broker /futures broker to perform CDD by identifying the customer or beneficial owner and verifying the customer's/beneficial owner's identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources. It was revealed that in 4 instances Respondent did not obtain copy of CNIC of main applicant and nominees with clients account opening forms, in violation of the Regulation 6(3)(a) of the AML Regulations.

4. It appeared from the preceding that the Respondent *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 explain its stance in person on December 20, 2019. The Respondent vide its letter dated December 23, 2019 submitted reply to the SCN, which is reproduced below:

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a) It has been highlighted that SCS did not perform screening of authorized persons, beneficial owners, board of directors, trustees and officer bearers in violation of AML Regulations.

We would like to apprise the Honorable Commission that SCS before establishing relation with any account holder, ensures that the details of the clients (including the authorized persons, beneficial owners, board of directors, trustees and office bearers) are monitored with the entities and individuals mentioned in sub-regulation (5a) of Regulation 6.

Once the account is operated after the required due diligence, SCS then forms the specified account part of the list of database of the clients, which contains all ancillary details of the clients including but not limited to their identity, residence, contact details, profession, source of income, trading details, net worth, commission, etc.





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However, during the review, JIT was of the opinion that the details of the authorized persons, beneficial owners, board of directors, trustees and office bearers should also form part of the client database being maintained by SCS.

However, it is pertinent to mention that;

-The aforesaid observation only relates to corporate accounts and that

-The details of the authorized persons, beneficial owners, board of directors, trustees and office bearers are properly monitored with the entities and individuals mentioned in sub-regulation (5a) of Regulation 6 at the time of operating the account (as also explained above). However the same is not formed part of the client database subsequently.

-The JIT has also verified the list/ electronic database of the entities and individuals mentioned in sub-regulation (5a) of Regulation 6 being maintained by SCS.

However, at the advice of the JIT, we have now in the client database, initiated the practice of also adding the details of authorized persons, beneficial owners, board of directors, trustees and office bearers.

b) We would like to inform the Honorable Commission that SCS is cognizant of its obligations with regard to the requirements laid under AML Regulations and in particular the requirements of Regulation 6(3)(c) and Regulation 9(4)(b) of AML Regulation, which requires monitoring of accounts/transactions on ongoing basis and to establish, by appropriate means, the source of wealth and/or funds. SCS at all material times ensures that no account is operated until proper and due verification is conducted with regard to the source of income of the clients along with the evidence of the same.

Further, during review details were inquired with regard to evidence of the source of income of certain clients. Details of these clients were obtained from the record room for onward submission to the inspection team.

However, the Honorable Commission in its observation has listed that evidence relating to the source of income of the two (2) clients have not been provided by SCS. The Honorable Commission has not mentioned the details/account codes of these clients. As assured, we request the honorable commission to specify the details of these clients and evidence relating to their source of income will be shared with the Honorable Commission.

c) It has been highlighted by the Inspection team that identity documents (i.e.CNIC) of the customers i.e 6 main account holders, 2 joint account holders, 6 nominees and 3 directors, were not validated by SCS.

In this regard, we would like to apprise the honorable commission that SCS ensures that the identity document i.e. CNIC of each client is validated either by requiring CNIC copy to be verified through original CNIC (original seen) or by requiring attested copy of the CNIC. The instances highlighted by the inspection team entails all those instances whereby the documents were validated through original CNIC.

Furthermore, the company is also in the process of acquiring NADRA verisys, whereby each such document shall then also be verified from verisys.

d) The inspection team has highlighted that in 4 instances SCS did not obtain copy of CNIC of main applicant and nominees with clients account opening forms, in violation of Regulation 6(3)(a) of the AML Regulations. Details of these clients are listed below;

We would like to apprise the Honorable Commission that SCS as a matter of its policy and the regulatory requirement ensures that no account is operated without obtaining the requisite documents from the account holder including copies of the CNIC. In the aforementioned instances, copies of CNICs were provided to the inspection team and copies of the same has also been enclosed to this letter as Annexure 1."





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5. The Respondent was accorded an opportunity of personal hearing dated February 12, 2020. The hearing was attended by Mr. Naushad Chamdia (Chief Executive Officer) and Mr. Waqar Ahsan (Director 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:

- a. The Respondent could not furnish any documentary evidence to substantiate that it has been performing requisite screening of authorized person, beneficial owners, board of directors, trustees and office bearers. Similarly, Respondent has also failed to exhibit a mechanism or a database as an evidence in its support of compliance of AML Regulations. The Authorized Representatives submitted after pointing out the default by the inspection team, it has initiated the practice of screening the details of authorized persons, beneficial owners, board of directors, trustees and office bearers. Authorized Representatives further submitted that now the Respondent is also maintaining the requisite database related clients. Therefore, it is evident that the Respondent has contravened Regulation 4(a) and 13(7) of the AML Regulations.
- b. Authorized Representatives could not provide evidence that documents substantiating source of income of two clients identified in inspection, was available with the Respondent at the time of inspection. Therefore, the contravention of Regulation 6(3)(c) and 9(4)(b) of the AML Regulations on part of Respondent cannot be denied.
- c. During the hearing and in response to SCN reply, the Respondent admitted that the Respondent currently does not have NADRA Verisys facility and it is in the process of acquiring the requisite system. Thus, contravention of Regulation 6(4) is established against the Respondent for not validating the identity documents of its customers as stipulated in the AML Regulations.
- d. The contention of Authorized Representatives that Respondent was compliant with Regulation 6(3)(a) of the AML Regulations and it had provided the copies CNICs to the inspection team in all the identified instances. During the hearing Authorized Representatives submitted copies of CNIC of the highlighted instances. However, Authorized Representatives could not provide evidence substantiating that said copies of CNIC were available with the Respondent at the time of inspection and same were provided to inspection team.

7. 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. 850,000/- (Rupees eight hundred fifty 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.

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.

Handwritten signature





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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 matter subsequently investigated or otherwise brought to the knowledge of the Commission.



(Ali Azeem Ikram)

Executive Director (Adjudication Department-1)

Announced on March 6, 2020
Islamabad