



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I
Adjudication Division

Through Courier

Before the Executive Director (Adjudication Department-1)

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

Date of Hearing	February 28, 2020
Present at the Hearing	Mr. Wasim
Representing Pearl Securities Limited	(Head of Operations)

ORDER

This Order shall dispose of the proceedings initiated against Pearl Securities Limited (the "Respondent") through Show Cause Notice No. 1(165-B) SMD/ADJ-1/KHI/2019, dated February 03, 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 that the Company is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited ("PSX") and licensed as a securities broker with the Securities and Exchange Commission of Pakistan (the "Commission").

3. The Joint Inspection Team of PSX, Central Depository Company of Pakistan Limited and National Clearing Company of Pakistan Limited (herein after referred to as "JIT") conducted a thematic review of the Respondent (herein after referred to 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 ("AML Regulations") and other related Circulars, Notification and Directives etc.

4. The Review revealed that the Respondent, *prima facie*, was non-compliant with the AML Regulations, detailed as under.

- It was observed that the Respondent had not validated from NADRA Verisys the identity documents of its corporate clients, directors, authorized persons in violation of Regulation 6(4) read with Note (i) of Annexure-I of the AML Regulations.
- In this regard, it was observed that the Respondent did not undertake appropriate CDD measures to identify source of income of one of its clients. The client is a student as per the account opening form and lives with her parents however, no details of beneficial ownership were provided by the Respondent. The Respondent therefore, acted in violation of Regulation 6(3)(a) & 6(3)(c) of the AML Regulations.





Securities and Exchange Commission of Pakistan

Adjudication Division Adjudication Department 1

5. In view of the aforesaid, the Respondent *prima facie* acted in contravention of the AML Regulations. The Commission therefore took cognizance of the aforesaid violations, issued SCN dated February 03, 2020 to the Respondent through its Chief Executive Officer.

6. The Respondent was accorded hearing opportunity on February 28, 2020. The hearing was attended by Mr. Wasim (Head of Operations) as Authorized Representative. During the hearing proceedings, the Authorized Representative submitted verbal arguments on the para 3(a) & 3(b) of the SCN.

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

- i. With regard to the Verisys of identity documents in respect of its corporate clients, their directors & authorized persons in 12 instances, the Respondent submitted that it had not implemented the Verisys system in its brokerage house facility. Further, the Respondent was of the opinion that the client accounts and their respective UINs are opened after verification from NCCPL and therefore, the identity documents are verified through their system prior to opening of account with the Respondent. The stance of the Respondent in this regard is not justifiable as the NCCPL only open the UIN account for clients or joint account holders in which case their identity documents are verified through their systems. However, validation of identity documents in respect of corporate clients and their directors/ authorized persons is not carried out through NCCPL system, instances of which have been identified during the Review. The Respondent did not verify the identity documents of the said individuals/ entities from the NADRA Verisys system and was therefore, found non-compliant with the Regulations. Further, verification of documents from NCCPL for UIN opening does not absolve the Respondent of its responsibility to conduct their due diligence as per the requirements of the AML Regulations. The Respondent failed to produce evidence of any verification system for identity documents of its corporate clients, directors and authorized persons and therefore, acted in contravention of the Regulation 6(4) read with Note (i) of Annexure-I of the AML Regulations.
- ii. With regard to the CDD of one of its clients, the Respondent during the hearing provided that the client's mother is a doctor and the beneficial owner of the client's account in which case proof of income was also provided by the Respondent. When inquired regarding the proof of income of the mother, the Respondent provided that the mother had provided indemnity for the daughter in respect of provision of funds for the clients trading account. Further, that the mother runs a private clinic facility and the proof was provided on the letterhead of the clinic. Further, that the Respondent has a long-standing relationship with the clients and therefore, did not obtain any further evidence such as bank statement, tax return in respect of source of funds/ income of the beneficial owner. The Respondent's reply in this regard is not tenable as the regulations clearly stipulates the requirements in respect of proof of income/ source of funds of the beneficial owner in the instant case. The





Securities and Exchange Commission of Pakistan

Adjudication Division
Adjudication Department 1

client had significant trading activity in the trading account with no evidence of source of funds/ income from the client or its beneficial owner such as copy of bank statement or tax return. The Respondent was therefore, found non-compliant with Regulation 6(3)(a) & 6(3)(c) of the AML Regulations.

8. In the view of the foregoing and the admission by the Respondent, contravention of the provisions of the AML Regulations have been established. Therefore, in term of the power conferred under Section 40A of the Act, a penalty of **Rs. 400,000 (Rs. Four Hundred Thousand Only)** is hereby imposed on the Respondent. The Respondent is advised to enforce the provisions of AML Regulations in letter and spirit. 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 date this Order and furnish the original deposit challan to this Office.

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



(Ali Azeem Ikram)

Executive Director (Adjudication Department-1)

Announced on March 09, 2020
Islamabad