



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. Alfa Adhi Securities (Private) Limited

Date of Hearing	February 12, 2020
Present at the Hearing	i. Mr. Mohsin Adhi
Representing Alfa Adhi Securities (Pvt.) Limited	(Director)

ORDER

This Order shall dispose of the proceedings initiated against Alfa Adhi Securities (Private) Limited (the "**Respondent**") through Show Cause Notice No. 2(192) SMD/ADJ-1/KHI/2019, dated January 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 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.

- a. Several vulnerabilities were observed in the Screening Mechanism of the Respondent for its clients as follow:
- There was no procedure or control in place to screen its customers from UNSC list regarding proscribed persons/entities.
 - There was no centralized database of beneficial owners to perform screening with the list of proscribed persons/entities from UNSC/NACTA lists.
 - There was no defined mechanism for periodic screening of its clients with the list of proscribed persons/entities.

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The above highlighted vulnerabilities and weaknesses in procedures and controls of the Respondent attract violations of Regulation 4(a) & 13(7) of the AML Regulations.

- b. The Respondent did not provide evidence relating to the source of funds/income of 16 clients. Further, these clients have significant custody and trade activity in their accounts. One instance of corporate client was also highlighted wherein the Respondent had not maintained CNICs of Directors in the client profile. The Respondent therefore, failed to conduct appropriate Customer Due Diligence ("CDD") and on-going monitoring of these accounts in violation of Regulation 6(3)(c) & 13(1) of the AML Regulations.
- c. The Respondent had not defined Enhanced Due Diligence ("EDD") procedures for its high-risk clients and failed to perform EDD of any of its clients in violation of Regulation 9(4) & 13(3) of the AML Regulations.
- d. The Respondent had not validated from NADRA Verisys the identity documents of its clients, joint account holders, nominees, authorized persons and members in case of 26 client accounts. Further, the Respondent did not obtain CNICs of all directors in case of 2 corporate clients. The Respondent therefore, acted in contravention of Regulation 6(4) read with Note (i) of Annexure-I of the AML Regulations.
- e. The Respondent did not obtain list of Directors of 2 corporate clients and therefore, beneficial ownership could not be established in violation of Regulation 7(1) of the AML Regulations.

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 12, 2020 to the Respondent. The Respondent vide its letter dated January 29, 2020 submitted reply to the SCN which is reproduced below:

"We are working on the points highlighted as non-compliant. We will be completing our screening process of LUNSC by March 31, 2020. We have got access of e-sahulat from NADRA through which we will be verifying out client's identity documents by March 31, 2020.

We are also working on implementation phase of EDD for high-risk clients. But since it's a new system, it will take time for clients to accept these regulations"

6. The Respondent was accorded hearing opportunity on February 12, 2020. The hearing was attended by Mr. Mohsin Adhi (Director) as Authorized Representative. During the hearing proceedings, the Authorized Representative submitted the same arguments as provided in its response to the SCN.

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

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- i. With regard to the deficiencies in the Screening Mechanism, it was observed that:
- a. The Respondent had conducted screening of its clients with NACTA list of proscribed persons/ entities however, such screening was not conducted against the list of proscribed persons/ entities by UNSC. The Respondent admitted to the said observation and provided that they are in the process of screening of all its clients against the proscribed lists of UNSC/ NACTA and the screening will be completed by March, 2020.
 - b. The centralized database was found to be deficient with respect to the Beneficial owners of its clients for screening purposes. The Respondent admitted to the same and provided that they are in the process of completion of their database and the screening process will be completed by March, 2020.
 - c. The Respondent did not provide evidence of on-going monitoring process adopted for its clients and was therefore, found non-compliant. The Respondent submitted that on-going monitoring process was adopted subsequent to the observation highlighted in the Review.

In view of the above, The Respondent was found non-compliant with Regulation 4(a) & 13(7) of the AML Regulations.

- ii. With regard to the on-going monitoring of its clients, 16 instances were identified wherein the Respondent had not provided evidence related to the source of funds/ income. The Respondent was inquired regarding the CDD of such clients during the hearing wherein the Respondent provided that it has a long-standing relationship with these clients and therefore, it was reluctant to obtain such information relating to the CDD Requirements. However, such a reason cannot be used as an excuse to comply with the requirements of the AML Regulations. The AML Regulations requires a regulated person to use such measures as to conduct on-going monitoring of its clients on periodic basis and obtain such information/ documents to ensure that the clients trading activity commensurate with their level of income/ source of funds. The Respondent was therefore, found non-compliant with Regulation 6(3)(c) & 13(7) of the AML Regulations. The Respondent in its response provided that subsequent to the inspection, it has taken measures to implement appropriate CDD measures and call from such information from clients. The Respondent is advised to complete CDD profile of all highlighted clients. The Respondent is further advised to formulate and implement a policy/ procedure w.r.t clients who do not provide the requisite CDD/EDD documents in which regard clarification may be sought from Anti Money Laundering (AML) Department of the Commission.
- iii. With regard to the EDD procedure for its high-risk clients, the Respondent submitted that they are in the phase of implementation of EDD and since it is a new system therefore, it will take time for its clients to accept these regulations. During the review, it was observed that the Respondent had failed to adopt any procedures of EDD for its high-risk clients and therefore, found non-compliant with Regulation 9(4) & 13(3) of the AML Regulations. The Respondent is advised to comply with the requirements of the Regulations in letter and spirit and adopt necessary measures/ controls for EDD of all its high-risk clients.





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- iv. With regard to the verification of identity documents of its clients through NADRA Verisys system, the Respondent submitted that they had adopted E-Sahulat for verification of identity documents which is an alternative to Verisys system. However, the requirements of the Regulations clearly provide for the verification through NADRA Verisys system and therefore, the Respondent was found non-compliant with Regulation 6(4) read with Note (i) of Annexure-I of the AML Regulations. The Respondent was advised to conduct NADRA Verisys of all its clients and related parties and further, seek clarification from AML Department if required in the matter.
- v. With regard to the beneficial ownership of its corporate clients, the Respondent failed to obtain list of directors of 2 entities. The Respondent admitted to the observation and provided that such list has been obtained subsequent to the Review. However, during the Review, the Respondent failed to provide evidence of beneficial ownership of 2 corporate clients due to which it was found non-compliant with Regulation 7(1) of the AML Regulations. The Respondent is advised to conduct appropriate CDD of legal persons/ arrangements as per the requirements of Regulation 7 of the AML Regulations and obtain such information/ documents as required.

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. 475,000/- (Rupees Four Hundred and Seventy-Five 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. The Respondent is further advised to implement the direction given at para 7(ii) above and also complete the screening and NADRA verification of its clients by March 31, 2020 under intimation to the Broker Compliance Department of the Commission.

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