



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

ORDER	
Name of Company:	M/s. Zahid Latif Khan Securities (Private) Limited
Number and Date of Show Cause Notice (the SCN):	1(40)SMD/Adj-1/ISE/2019-65 dated August 30, 2024
Date of Hearing:	October 03, 2024
Case represented by:	(i) Mr. Zahid Latif Khan, Chief Executive Officer; (ii) Mr. Shabbir Ahmed, Compliance Officer; and (iii) Mr. Muhammad Zubair, Deputy Manager Finance. (as the Authorized Representatives.)
Date(s) of written submission(s):	(i) September 13, 2024; (ii) October 10, 2024; (iii) January 06, 2025; (iv) February 04, 2025; and (v) February 14, 2025.
Provisions of law involved:	Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 read with Section 6(A)(2)(h) of the Anti-Money Laundering Act, 2010 and Rule 4(1)(a) and 6(1) of the AML/CFT Sanction Rules, 2020
Date of the Order:	March 20, 2025

This Order shall dispose of the proceedings initiated through the Show Cause Notice No. 1(40)SMD/Adj-1/ISE/2019-65 dated August 30, 2024 (the “SCN”) by the Securities and Exchange Commission of Pakistan (the “Commission”) against M/s. Zahid Latif Khan 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 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 Rules”) for failure to comply with Regulations 11, 21 and 23(2) of the Regulations.

2. The Company is a securities broker and a regulated person as per definition under Clause (r) of Regulation 3(1) of the AML Regulations and is a Trading Right Entitlement Certificate (TREC) holder of Pakistan Stock Exchange (“PSX”).

3. The brief facts of the matter are that an inspection of the Company 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 Regulations for the period from January 01, 2023 to December 31, 2023 (the “Inspection Period”). The Inspection report dated June 07, 2024 (the “Inspection Report”) revealed as under:

- The Company failed to identify the beneficial owner (BO) of 396 eligible clients (Annexure I of the SCN) and also failed to take reasonable measures to verify the identity of BO by using reliable and independent document, data or sources of information as set

out in Annex 1 of the AML Regulations, which is, *prima facie*, violation of the requirements of Regulation 11 of the AML Regulations.

- b) The Company failed to perform Enhanced Due Diligence (EDD) procedures on the following seven (7) highlighted high-risk clients mentioned below and also failed to furnish relevant supporting evidence, which is, *prima facie*, violation of the requirements of Regulation 21 of the AML Regulations:

Sr. #	Client Code	CDC #
1	309352	144275
2	805628	152914
3	110339	140448
4	500345	153805
5	110131	106100
6	801678	80388
7	309246	140364

- c) The Company failed to justify in writing the assigning of a low-risk rating to twelve (12) clients mentioned below on the KYC/CCD checklist, which is, *prima facie*, violation of the requirements of Regulation 23(2) of the AML Regulations:

Sr. #	Client Code	CDC #
1	309594	154258
2	200050	21382
3	805514	150801
4	500074	122370
5	805959	160776
6	805440	149209
7	500257	143749
8	700058	159265
9	700013	149753
10	803983	136628
11	500197	137816
12	803571	126041

4. The relevant provisions of law are as under:

Regulation 11 of the AML Regulations:

"The regulated person shall also identify the beneficial owner and take reasonable measures to verify the identity of the beneficial owner by using reliable and independent document, data or sources of information as set out in Annex 1, such that the regulated person is satisfied that it knows who the beneficial owner is."

Regulation 21 of the AML Regulations:

"Enhanced Due Diligence (EDD) –

(1) Regulated person shall implement appropriate internal risk management systems, policies, procedures and controls to determine if any customer presents high risk of ML/TF. The regulated person shall apply EDD where a customer presents high risk of ML/TF including but not limited to the following circumstances:

- (a) business relationships and transactions with natural and legal persons when the ML/TF risks are higher;
- (b) business relationships and transactions with natural and legal persons from countries for which this is called for by the FATF;
- (c) PEPs and their close associates and family members."

Regulation 23 of the AML Regulations:

"Simplified Due Diligence - (2) The decision to rate a customer as low risk shall be justified in writing by the regulated person."

Regulations 31 of the AML Regulations:

"(1) Any contravention of these regulations shall be cognizable by the Commission in accordance with section 6A of the AML Act and liable to sanction provided in the AML/CFT Sanctions Rules, 2020 and imposed by the Commission according to Clause (h) of Sub-section (2) of Section 6A of AML Act."

Section 6(A)(2)(h) of the AML Act:

"(h) impose sanctions, including monetary and administrative penalties to the extent and in the manners as may be prescribed, upon their respective reporting entity, including its directors and senior management and officers, who violates any requirement in section 7(1), 7(3) to 7(6) and 7A to 7H and any rules or regulations made thereunder or those who fail to comply with the TFS regulations. Any person aggrieved by the imposition of sanctions under this clause may prefer an appeal in such manner and within such period to such authority as may be prescribed;"

Rules 4(1)(a) of the AML Rules:

"(a) Impose a monetary penalty in accordance with these Rules;"

Rule 6(1) of the AML Rules:

"(1) The AML/CFT Regulatory Authority shall apply monetary penalties upto Rs. 100 Million per violation, in accordance with the risk-based penalty scale of the respective AML/CFT Regulatory Authority."

5. While taking cognizance in the matter, the 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 Regulations read with Rules 4(1)(a) and 6(1) of the AML Rules and Section 6(A)(2)(h) of the AML Act, may not be imposed for contravening the above-mentioned provisions of the law. In response to the SCN, the Company vide letter dated September 13, 2024, *inter alia*, made the following submissions:

- (i) For every client, justifications were provided in writing in "Other Comments" section at the end of the KYC/CDD checklist. Copies of these checklists had already been submitted to PSX on June 28, 2024.
- (ii) Regarding EDD for the seven (7) clients identified as high-risk for Money Laundering and Terrorist Financing (ML/TF), the relevant EDD checklists were submitted to the PSX JIT on June 28, 2024.

(iii)The BO for the mentioned accounts has been duly identified and mapped. Additionally, the screening for these accounts was completed, and the relevant evidence has already been submitted to the PSX JIT.

6. In order to provide an opportunity of personal representation, hearing in the matter was fixed for October 03, 2024 which was attended by Mr. Zahid Latif Khan-Chief Executive Officer (CEO), Mr. Shabbir Ahmed-Compliance Officer and Mr. Muhammad Zubair-Deputy Manager Finance, as the Authorized Representatives of the Company (the **“Authorized Representatives”**). During the course of hearing, the Authorized Representatives reiterated the stance as taken in earlier response to the SCN and made the following written submissions:

- (i) All documents and database have been maintained by the Company;
- (ii) System generated KYC/CDD checklists were provided to the JIT which again have been provided in response to the SCN;
- (iii)The data of BO since 2005 was provided to the JIT which now again have been provided;
- (iv)Now accounts are being opened digitally and verified via one-time password (OTP); and
- (v) Requested to take a lenient view, as the Company has been diligently complying with the requirements of the AML/CFT/CPF Regulations.

7. Subsequent to the hearing, the Authorized Representatives provided the evidences detailed as under;

- (i) In respect of twelve (12) highlighted clients KYC/CDD checklists;
- (ii) In respect of seven (7) highlighted high-risk clients EDD documents; and
- (iii)In respect of the mapping of BO of 396 clients; provided additional BO data of the highlighted clients and ledger balances of High-Risk clients vide emails dated October 10, 2024, January 06, 2025, February 14, 2025 and vide letter dated February 04, 2025.

8. I have reviewed the facts of the case and also considered the written and verbal submissions made by the Authorized Representatives. At this juncture, it is important to discuss the following legal and factual elements:

- (i) With regard to the mapping of BO for 396 clients as required under Regulation 11 of the AML Regulations, the Authorized Representatives have provided evidences demonstrating that the Company identified and mapped the BO of 396 clients using reliable and independent sources. Upon reviewing the provided evidences, it is observed that the Company had identified the BO using reliable and independent documents, data and sources of information, such as tax returns, affidavits and salary slips.

- (ii) However, certain discrepancies have been identified in the client accounts. Specifically, CDC #144275, 149423, and 152716 are categorized as "Housewife" accounts, yet there is no documented source of funds to verify their financial standing. Similarly, CDC #135174 and 150223, classified as "Student" accounts, lack any disclosed source of income. CDC #135174, in particular, includes a business card listing the business's name, which does not independently establish the client's source of funds/income; though affidavits regarding the BO are attached with these accounts. Furthermore, CDC #136768, 135414, 117461, and 129862, also categorized as "Student" accounts, but the same accounts no longer hold this status based on the submitted documents, indicating that their classification has not been timely updated in the system. The Company has provided supporting documentations and the dates on these documents suggest that the relevant data has been maintained, however, these evidences were submitted after the Inspection and issuance of the SCN.
- (iii) With regard to the justification in writing in respect of assigning low-risk rating to the clients as required under Regulation 21 of the AML Regulations, the Authorized Representatives have provided evidences in support of the Company's stance for assigning low-risk ratings to twelve (12) highlighted clients. Upon reviewing the KYC/CDD checklists, it is observed that justifications were recorded in the "Other Comments" section. However, these evidences were submitted after the Inspection and issuance of the SCN.
- (iv) With regard to the performance of EDD on high-risk clients as required under Regulation 23(2) of the AML Regulations, the Authorized Representatives have provided evidences demonstrating that the Company performed EDD on the seven (7) high-risk clients. Upon reviewing the provided EDD evidence, it is observed that the Company had carried out EDD for the high-risk clients. This was based on the factors i.e. clients being NICOP holders, residing in high-risk jurisdictions, and on the collection of the requisite documents. The dates on the documents further confirm that the Company had maintained the necessary evidence of conducting EDD. However, these evidences were submitted after the Inspection and issuance of the SCN.
- (v) Furthermore, the Company and its Authorized Representatives have asserted that the required documents were submitted to the PSX on June 28, 2024. However, it is pertinent to note that the submission to PSX was made in response to PSX's proceedings and requirements, and the Company was separately required to submit the required documents following the Inspection to the Commission.
- (vi) In Appeal No. 73 of 2020 [*Topline Securities Limited vs Executive Director, Adjudication Department*], the Appellate Bench Registry of the Commission (the "Bench") took a lenient view where the Appellant has demonstrated efforts to adhere to the requirements of law. Similarly, in Appeal No. 9 of 2020 [*Kashf Foundation vs Executive Director, Adjudication Department*], the Bench again took a lenient view where the Appellant voluntarily disclosed the violations and implementing corrective measures.

9. In view of the foregoing, as the Company has provided evidences demonstrating that; the KYC/CDD checklists justified the assignment of low-risk ratings in writing; EDD was performed for the high-risk clients by maintaining the requisite documents; and the mapping and identification of BO was carried out using reliable sources of documents except for the noted discrepancies in certain accounts, therefore, I, in terms of powers conferred upon me under Section 6(A)(2)(h) of the AML Act read with Regulation 31 of the AML Regulations read with S.R.O. 827(I)/2022 dated June 9, 2022, hereby **Warn** the Company and advised it to meticulously adhere to the applicable legal framework in the future.



(Mahboob Ahmad)

Additional Director / Head of Wing
Adjudication Department-I

Announced:

March 20, 2025
Islamabad