



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

ORDER	
Name of Company:	M/s. Khawaja Securities (Private) Limited
Number and Date of Show Cause Notice (the SCN):	2(225)SMD/Adj-1/2020-280 dated January 24, 2025
Date(s) of Hearing(s):	(i) February 14, 2025; and (ii) February 26, 2025.
Case represented by:	Mr. Awais Butt, Internal Auditor; (as the Authorized Representative.)
Provisions of law involved:	Section 6A(2)(h) of the Anti-Money Laundering Act, 2010 and Rule 4(1)(a) and 6(1) of the AML/CFT Sanction Rules, 2020 read with Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 and Regulation 9 read with Annexure-I and Regulation 27(1)(d) thereof.
Date of the Order:	March 26, 2025

This Order shall dispose of the proceedings initiated through the Show Cause Notice No. 2(225)SMD/Adj-1/2020-280 dated January 24, 2025 (the “SCN”) by the Securities and Exchange Commission of Pakistan (the “Commission”) issued to M/s. Khawaja Securities (Private) Limited (the “Company”) under Section 6A(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”) read with 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”) and Regulation 9 read with Annexure-I and Regulation 27(1)(d) thereof.

2. The Company is a futures broker and a regulated person as per definition under Clause (r) of Regulation 3(1) of the AML Regulations.

3. The brief facts of the matter are that Inspection of the Company was carried out vide Inspection Order No. PMEX/RAD/170/2024 dated July 25, 2024 by the Inspection team of Pakistan Mercantile Exchange (“PMEX”) covering period from **July 01, 2023 to June 30, 2024** (the “Inspection Period”). The Scope of the Inspection included examining compliance status with respect to requirements stipulated under the AML Regulations. The Inspection team shared its findings with the Company vide email dated September 02, 2024 and the reply of the Company dated September 05, 2024 received thereon was duly included in the Inspection Report dated September 09, 2024 (the “Inspection Report”). The Inspection Report revealed as under:

- The Company failed to carry out Customer Due Diligence (CDD) and risk profiling of fifteen (15) customers highlighted below, which is, *prima facie*, violation of the requirements of Regulation 9 read with Annexure-I of the AML Regulation:

Sr No.	Trading ID
1.	202700234
2.	202700207
3.	202700241
4.	202700227
5.	202700231
6.	202700221
7.	202700242
8.	202700239
9.	202700243
10.	202700228
11.	202700238
12.	202700235
13.	202700222
14.	202700232
15.	202700233

- b) The Company failed to develop an independent audit function to test the AML systems, policies and procedures, which is, *prima facie*, violation of the requirements of Regulation 27(1)(d) of the AML Regulations.
4. The relevant provisions of law are as under:

Section 6A(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."

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."

Regulation 9 of the AML Regulations:

"The regulated person shall:

- (a) identify the customer; and*
- (b) verify the identity of that customer using reliable and independent documents, data and information as set out in Annex 1.*

Annex-I of the AML Regulations:

(i) For due diligence purposes, at the minimum following information shall also be obtained and recorded on KYC (Know Your Customer)/CDD form or account opening form:

- (a) Full name as per identity document;*
- (b) Father/Spouse Name as per identity document;*
- (c) Mother Maiden Name;*
- (d) Identity document number along with date of issuance and expiry;*
- (e) Existing residential address (if different from CNIC);*
- (f) Contact telephone number(s) and e-mail (as applicable);*
- (g) Nationality-Resident/Non-Resident Status*
- (h) FATCA/CRS Declaration wherever required;*
- (i) Date of birth, place of birth;*
- (j) Incorporation or registration number (as applicable);*
- (k) Date of incorporation or registration of Legal Person/ Arrangement;*
- (l) Registered or business address (as necessary);*
- (m) Nature of business, geographies involved and expected type of counter-parties (as applicable);*
- (n) Type of account/financial transaction/financial service;*
- (o) Profession / Source of Earnings/ Income: Salary, Business, investment income;*
- (p) Purpose and intended nature of business relationship;*
- (q) Expected monthly turnover (amount and No. of transactions); and*
- (r) Normal or expected modes of transactions/ Delivery Channels."*

Regulation 27(1)(d) of the AML Regulations:

"(1) In order to implement compliance programs as set out in 7G of the AML Act, the regulated person shall implement the following internal policies, procedures and controls:

.....

(d) an independent audit function to test the system. "

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 Section 6A(2)(h) of the AML Act and Rules 4(1)(a) and 6(1) of the AML Rules read with Regulation 31 of the AML Regulations, may not be imposed for contravening the above-mentioned provisions of the law. However, in response to the SCN, no written submissions were made by the Company.

6. In order to provide an opportunity for personal representation, a hearing in the matter was fixed for February 14, 2025. However, the Company vide an email dated February 13, 2025 sought an adjournment which was acceded to. Subsequent hearing in the matter was re-fixed for February 26, 2025 which was attended by Mr. Awais Butt, Internal Auditor, as the Authorized Representative of the Company (the "Authorized Representative"). During the course of the hearing, the Authorized Representative stated that the Chief Executive Officer (CEO) of the Company was overseeing the internal audit function; however, an independent internal audit function has now been established. Additionally, the Authorized Representative stated that risk profiling of the customers had been done, but was initially missed from submission to the Inspection team. The Authorized Representative further added that the required evidence had subsequently been provided and will again be submitted in response to the SCN proceedings.

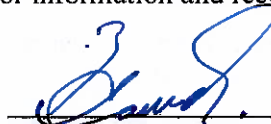
7. I have reviewed the facts of the case and also considered the verbal submissions made by

the Authorized Representative. At this juncture, it is important to discuss the following legal and factual elements:

- (i) With regard to carrying out CDD and risk profiling of customers, the Authorized Representative submitted that the risk profiling of the customers had been duly done and that the evidence of the same was subsequently provided to the Inspection team. It is pertinent to note that the Authorized Representative failed to substantiate this claim by providing any supporting evidence to confirm that the evidence of risk profiling was submitted to the Inspection team. Furthermore, no evidence has been provided in response to the SCN to demonstrate that CDD was carried out and risk profiling was done for fifteen (15) customers; thereby contravenes the requirements of Regulation 9 read with Annexure-I of the AML Regulations.
- (ii) With regard to the independent audit function, the Authorized Representative submitted that the CEO of the Company was previously overseeing the internal audit function and that an independent audit function has now been established. It is pertinent to note that the existence of an independent audit function is a fundamental requirement to ensure effective oversight and to test AML policies and procedures. The stance of the Authorized Representative that the CEO was overseeing the internal audit function does not fulfill the regulatory requirements, as it compromises the independence and objectivity required for an effective internal audit framework; thereby, contravenes the requirements of Regulation 27(1)(d) of the AML Regulations. Moreover, no supporting documents has been provided by the Authorized Representative to substantiate that the independent audit function has now been established.

8. In view of foregoing, the contraventions of Regulations 9 read with Annexure-I and Regulation 27(1)(d) of the AML Regulations have been established which attract the applicability of Section 6A(2)(h) of the AML Act and Rules 4(1)(a) and 6(1) of the AML Rules read with Regulation 31 of the AML Regulations. I, therefore, in terms of powers conferred under Section 6A(2)(h) of the AML Act read with Regulation 31 of the AML Regulations and S.R.O. 827(I)/2022 dated June 09, 2022, impose a penalty of **Rs. 170,000/- (Rupees One Hundred and Seventy Thousand Only)** on the Company on account of established default.

9. The Company is hereby directed to deposit the aforesaid fine in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and furnish receipted voucher issued in the name of the Commission for information and record.



(Mahboob Ahmad)

Additional Director / Head of Wing
Adjudication Department-I

Announced:
March 26, 2025
Islamabad.