

527



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Order	
Name of Company:	AAA Securities (Private) Limited
Show Cause Notice No. & Issue Date:	No. 2(149)SMD/Adj/2019-117 dated October 08, 2024
Date(s) of Hearings:	November 13, 2024
Present at the Hearing:	Mr. Arshad Saeed (Director) (Authorized Representative)
Provisions of law involved:	Section 6(A)(2)(h) of The Anti-Money Laundering Act, 2010 and Rule 4(1)(a) and 6(1) of the AML/CFT 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 23(2) thereof.
Date of Order:	May 07, 2025

This Order shall dispose of the proceedings initiated through the Show Cause Notice No. 2(149)SMD/Adj/2019-117 dated October 08, 2024 (the "SCN") by the Securities and Exchange Commission of Pakistan (the Commission) against AAA Securities (Private) Limited (the "Company") on account of alleged contravention of 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 Rule 4(1)(A) and 6(1) of the AML/CFT Sanction Rules, 2020 (the "AML/CFT Rules").

2. The Company is a Trading Rights Entitlement Certificate (TREC) holder of Pakistan Stock Exchange Limited (the "PSX") and is a regulated person as per Clause (r) of regulation 3(1) of the Regulations.

3. The brief facts of the case are that an inspection of the Company was carried out by the Joint Inspection Team (JIT), comprising officials from PSX, CDC and NCCPL, for the period April 01, 2023 to March 31, 2024 (the "Inspection Period"), to ascertain the compliance status with the AML Regulations. The inspection report dated June 25, 2024 (the "Inspection Report") reveals that the Company was, *prima facie*, found non-compliant with the provisions of the AML Regulations in the following manner:

a) The Respondent failed to justify in writing the low-risk rating of nine (9) clients in contravention of Regulation 23(2) of the AML Regulations. Details of the clients are provided as under:

Sr. #	Client Code	CDC #
1	22	515
2	12	523
3	2	531
4	23	796
5	26	804
6	25	812

7	29	846
8	31	861
9	32	879

4. The aforementioned non-compliances attract the applicability of Section 6(A)(2)(h) of the AML Act and Rule 4(1)(a) and 6(1) of the AML/CFT Rules read with Regulation 31 of the AML Regulations.

5. While taking cognizance of the matter, a SCN dated October 08, 2024 was served upon the Company, calling it to explain in writing, within 14 days of the date of the SCN, as to why penal action may not be undertaken for the aforesaid alleged violation of the AML Regulations.

6. The Company vide letter dated October 15, 2024 submitted written reply to the SCN, wherein the Company attached the requisite documents with respect to the source of earnings/income of the afore-mentioned clients and, inter alia, made the following submission:

(i) The Company is small brokerage house with 26 clients in total. These clients only trade in the ready market with cash-based delivery. The Company is maintaining/documenting the information and records relating to its customers as per AML/KYC/CDD Guidelines issued by SECP and PSX. The following information is obtained from the customers as per AML/KYC/CDD policy:

- a. Customers' profession/occupation
- b. Age/Gender
- c. Source of Income
- d. Resident/Non-Resident
- e. Domestic/Foreign

(ii) The Company justifies its decision to rate a client as lowrisk in writing. The Company always follows the relevant regulations and AML/CFT policy. The following procedure is adopted in this regard:

- a. Review of the Identity documents including CNIC's, residential status, source of income and profession etc. These documents are properly validated through a mechanism in place.
- b. The identity documents CNICs of the clients and their nominees have got been validated from NADRA Verisys.
- c. Documentation of risk assessment and keeping the risk assessment of its clients up to date.
- d. All relevant factors are considered before determining the level of overall risk.

(iii) The Company has the functionality in the Back-Office Software namely "Smart Stock System" developed by LSE Financial Services Limited to effectively cater the appropriate level of customer risk and TFS screening of its customers, joint account holders, and nominees. The customers' database is duly monitored/maintained in the afore-said software system.

(iv) In respect of, the said clients, the Company knows them for last 20 years and for the past 5 years they did not even contribute towards their investment portfolio and provided the supporting documents.

(v) As a responsible corporate citizen, the Company is cognizant to the fact that all Regulated Persons are to comply with the AML/CFT/CPF regulations and submission of information and responses in a timely manner under the respective regulations.

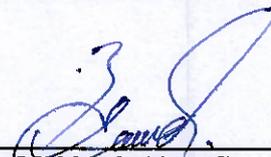
(vi) It is requested to please make a lenient view of the situation and show cause notice issued in this regard may kindly be withdrawn and also allow us to appear in person to further clarify our position on the matter.

7. In order to provide the Company an opportunity of personal representation, hearing in the matter was scheduled for November 13, 2024 through zoom link which was attended by Mr. Arshad Saeed (Director) as the Authorized Representative (the "Authorized Representative") on behalf of the Company. The Authorized Representative submitted that all the relevant documentary evidence regarding the clients has already been provided vide its letter dated October 15, 2024 and further submitted that these clients are well known to the company for the past 20 years whereas, there has been no significant investments in these accounts for the past 5 years. Subsequent to the hearing proceedings, the Respondent vide its letter dated November 15, 2024 provided KYC/CDD checklists and trading activity reports of the nine (9) clients.

8. I have given due consideration to the written as well as verbal submissions and arguments extended by the Company through its Authorized Representative, applicable provisions of the law and the material available on record. At this juncture, it is essential to address the following factual and legal elements:

- i. The Company has submitted documentary evidences regarding the source of income/earnings of the nine (9) clients, which are dated prior to the inspection period. This indicates that the Company had obtained the necessary documentation to assess the source of funds and justify the risk profile of these clients.
- ii. The Company provided undated KYC/CDD checklists for these clients which were not made available at the time of the inspection. Upon review, the KYC/CDD checklists reflect that the Company documented several risk factors, including the clients' resident status, high net worth classification, nationality, political exposure, and affiliation with government offices.

9. In view of the foregoing, I am of the considered opinion that the Company has sufficiently obtained the necessary documentation related to the source of income/funds of the nine (9) clients and has appropriately recorded the associated risk factors in their respective KYC/CDD checklists. However, as the checklists are undated and were not available at the time of inspection, I, hereby, in exercise of the 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, issue a strict **WARNING** to the Company to exercise greater diligence in the future with respect to KYC/CDD requirements under the AML Regulations, and to ensure that justifications for clients categorized as low-risk are properly documented and dated.



(Mahboob Ahmad)
Head of Wing (Adjudication Department-1)
Adjudication Department-I

Announced:
May 07, 2025
Islamabad.

