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SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

Before

Mahboob Ahmad, Additional Director/Head of Wing
(Licensed Entities-Adjudication Department-I)

In the matter of

AL-HAQ SECURITIES (PRIVATE) LIMITED

Show.Cause Notice No. & Issue Date:	2(459)SMD/Adj-1/2024 dated June 28, 2024
Date(s) of Hearings:	August 06, 2024
Present at the Hearing	Mr. Saeed Akhtar – Asst. Compliance Officer Mr. Waqas Ishrat – Account Officer

ORDER

UNDER REGULATION 31 OF THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (ANTI MONEY LAUNDERING AND COUNTERING FINANCING OF TERRORISM) REGULATIONS, 2020 READ WITH 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

This Order shall dispose of the proceedings initiated through the Show Cause Notice dated June 28, 2024 (**the SCN**) by the Securities and Exchange Commission of Pakistan (**the Commission**) against Al Haq Securities Private Limited (**the Respondent and/or the Company**) on account of alleged contravention of Regulation 9 read with Note (i) of Annexure 1, of AML/CFT Regulations under Regulation 31 of Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (**the AML/CFT 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 Sanctions Rules, 2020 (**the AML/CFT Rules**).

2. The Respondent is a Trading Right Entitlement Certificate (TREC) holder of Pakistan Stock Exchange (PSX).
3. The inspection of the Respondent was carried out by Joint Inspection Team (JIT) and its scope was to check compliance with the Commission AML/CFT regulations. The inspection was conducted for the period **September 01, 2022 to August 31, 2023 (the Inspection Period)** whereas, the Inspection Report dated April 09, 2024 highlighted that:

- a) The Respondent failed to maintain source of earnings/ income in case of 7 clients mentioned below in contravention of Regulation 9 read with Note (i)(o) of Annexure 1 of AML/CFT Regulations:

S. No	CDC Sub A/C.	Occupation
1	15099	Business
2	12021	Service
3	5629	Retired Person
4	5652	Student
5	8284	Student
6	14886	Student
7	6593	Retired Person

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

Regulation 9 of the AML/CFT 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."

Note (i) of Annexure- 1 of AML/CFT 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:

(o) Profession / Source of Earnings/ Income: Salary, Business, investment income"

Regulations 31 of the AML/CFT 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/CFT Rules:

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

Rule 6(1) of the AML/CFT 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 aforesaid matter, the SCN was issued to the Respondent, calling upon it to show cause in writing as to why penalty as provided under Regulation 31 of the AML/CFT 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 on it for contravening the aforementioned provisions of the law. In response to the SCN the Respondent vide its letter dated July 12, 2024 has submitted as under:

"With the reference to your letter on dated June 28, 2024 as per according the following detail under below,

S.N	CDC Sub A/C.	Occupation	Remarks
1	15099	Business	This is Existing account holder the person has been out of the country. We are following up regarding KYC process. When he is available then we will complete the procedure of KYC as per rules and regulations.
2	12021	Services	This is existing account holder in our company. This account holder is inactive no transaction since 6 years. We have sent many notices for completion of KYC. The evidence is attached with letter.





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3	5629	Retired Person	This is existing account holder in our company. This account holder is inactive no transaction since 5 years. We have sent many notices for completion of KYC. The evidence is attached with letter.
4	5652	Student	This is existing account holder in our company. This account holder is inactive no transaction since 5 years. We have sent many notices for completion of KYC. The evidence is attached with letter.
5	8284	Student	This is existing account holder in our company. This account holder is inactive no transaction since 5 years. We have sent many notices for completion of KYC. The evidence is attached with letter.
6	14886	Student	The source of income evidence attached we have already provided to the JIT Team.
7	6593	Retired Person	Client has died the following evidence were attached. We have already provided to JIT Team."

6. • In order to provide the Respondent an opportunity of personal representation, hearing in the matter was fixed for August 06, 2024 which was attended by Mr. Saeed Akhtar and Mr. Waqas Ishrat as its Authorized Representatives (**the Representatives**) through Zoom video link facility. During the course of hearing, the Representatives were advised to explain the reasons for the alleged non-compliances, as narrated in the SCN. The Representatives reiterated the same stance as taken in response to the SCN.

7. • I have examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondent and its Representatives. At this juncture, it is essential to address the following:

Whether the Respondent has made timely compliance in respect of Regulation 9 read with Note(i)(o) of Annexure-1 of AML Regulations?

• In respect of source of income/ earnings of 7 client accounts, the following has been observed:

S.N	CDC Sub A/C.	Occupation	KYC Reminder Letters (Dates sent)	Remarks
1.	15099	Business	Not provided	The Respondent is still under process of obtaining KYC/CDD documentation from the client. The client has a credit value of Rs. 29,576 as provided by the Respondent.
2.	12021	Services	June 2020, Dec 2020, Mar 2021, June 2021, March 2021, December 2021, June 2022, December 2023, March 2024	The Client has been inactive for 6 years and has a debit value of Rs. 8,000 in their account as provided in its response by the Respondent.
3.	5629	Retired Person	June 2020, Dec 2020, Mar 2021, June 2021, December 2021, June 2022, December 2023, March 2024	The Client has been inactive for 5 years and has a credit value of Rs. 13,546 in their account as provided in its response by the Respondent.
4.	5652	Student	June 2020, Dec 2020, Mar 2021, June 2021, December 2021, June 2022, December 2023, March 2024	The Client has been inactive for 5 years and has a credit value of Rs. 232,090 in their account as provided in its response by the Respondent.
5.	8284	Student	June 2020, Dec 2020, Mar 2021, June 2021, December 2021, June 2022, December 2023, March 2024	The client has been inactive for 5 years and has a credit value of Rs. 25,099 in their accounts as provided in its response by the Respondent.
6.	14886	Student		Father's FBR Return of Income for Tax Year (2020) provided along with Power of Attorney for operating client's trading

				account. The client has a debit balance of Rs. 1,529 in their account.
7.	6593	Retired Person	Evidence of death certificate provided	Client is deceased. Death certificate provided.

Failure to Take Adequate Remedial Measures for Inactive Accounts:

While the Respondent has made attempts to send KYC reminder letters, this alone does not satisfy the requirements under Regulation 9 of the AML/CFT Regulations, which obligates firms to ensure ongoing due diligence. The regulation mandates that regulated entities must not only obtain and verify the identity and source of income of clients but also continuously update this information. In four out of the seven instances, the accounts have been inactive for 5 to 6 years, yet the Respondent only sent reminder letters without taking further remedial measures, such as freezing or closing the accounts. This inaction constitutes a failure to comply with the requirement to conduct ongoing due diligence and mitigate risks associated with inactive accounts, especially in the absence of verified source of income documentation.

Non-Compliance in Case of Client Residing Abroad:

The Respondent's justification for the lack of KYC documents for CDC Sub A/C 15099, i.e., that the client is out of the country, is not legally sufficient. Regulation 9 requires regulated persons to verify the source of income using reliable and independent documents. Merely waiting for the client's return is not an adequate reason for non-compliance. The Respondent has failed to provide any verifiable documentation to substantiate the client's source of income, which constitutes a clear breach of the KYC/CDD obligations under the AML/CFT Regulations.

Sufficient Evidence for Client Categorized as a Student:

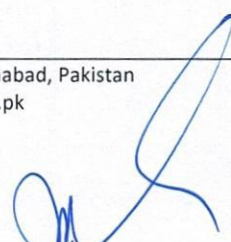
In the case of CDC Sub A/C 14886, the Respondent has provided the tax return of the client's father and a power of attorney, which may be considered acceptable evidence for KYC/CDD purposes. The minimal debit balance in the account and the client's inactive trading status indicate that the risk associated with this account is low. Therefore, the Respondent's actions in this case can be considered compliant with the requirements for identifying and verifying the source of income.

Compliance for Deceased Client: For CDC Sub A/C 6593, the Respondent has provided a death certificate, which sufficiently justifies the cessation of KYC-related activities for this account. This action is in compliance with the requirements of Regulation 9, as the account cannot reasonably continue under the name of a deceased individual.

8. The Respondent has demonstrated partial compliance with KYC/CDD obligations. However, in several cases, particularly with inactive accounts and the client residing abroad, the Respondent has failed to fulfill its legal obligations under the AML/CFT Regulations. The reliance on reminder letters, without taking further steps to close inactive accounts or verify the source of income for clients, reflects a breach of Regulation 9 read with note (i)(o) of the AML/CFT Regulations.

9. In view of the foregoing and the admission made by the Representative, non-compliances/contraventions of the Regulation 9(b) read with Note (i)(o) of Annexure- 1 of AML/CFT Regulations have been established, which attract the applicability of Regulation 31 of the AML/CFT Regulations read with Rules 4(1)(a) and 6(1) of the AML Rules and Section 6A(2)(h) of the AML Act. Therefore, I, in terms of powers conferred upon me under 6(A)(2)(h) of the AML Act, impose a penalty of **Rs. 100,000 /- (Rupees One Hundred Thousand only)** on the Respondent on account of established default.

10. The Respondent is also advised to ensure meticulous compliance with all applicable laws of Anti Money Laundering and Countering Financing of Terrorism in true letter and spirit, henceforth.





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11. The Respondent 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.

12. This Order is issued without prejudice to any other action that the Commission may initiate against the Company and/or its CEO in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

(Mahboob Ahmad)

Additional Director / Head of Wing
Licensed Entities - Adjudication Department-I

Announced:

October 07, 2024
Islamabad