



Securities and Exchange Commission of Pakistan  
Securities Market Division

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to Topline Securities Limited

<b>Date of Hearing</b>	August 6, 2019
<b>Present at the Hearing</b>	i. <i>Mohammad Sohail – Chief Executive</i>
<i>Topline Securities Limited</i>	ii. <i>Mr. Muzaffar Iqbal- Head of Compliance</i>

**ORDER**

This Order shall dispose of the proceedings initiated through the Show Cause Notice bearing No. 1(163) SMD/ADJ/KHI/2019 dated June 17, 2019 (“SCN”) issued to Topline Securities Limited (“Respondent”) by the Securities and Exchange Commission of Pakistan (“Commission”) under section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the “Act”) and section 150 of the Securities Act, 2015.

2. Brief facts of the case are as follows:

- (a) The Respondent is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (“PSX”) and licensed as a securities broker under the Securities Act, 2015.
- (b) An inspection conducted by the Commission revealed that the Respondent was non-compliant with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (“AML Regulations”). Keeping in view that the AML Regulations were new at the time of inspection, Commission ordered to conduct a follow up review (“Review”) to assess the Respondent’s compliance with the AML Regulations.
- (c) The Review, *inter alia*, revealed the following:

- i. The Respondent had not adequately performed Customer Due Diligence (CDD) of eleven of its clients such that the KYC/CDD forms were incomplete and/or undated. Also, the Respondent had not obtained information such as source of income and beneficial ownership at the time





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of opening of the account in violation of Regulation 6(2) and Regulation 6(3) which requires that a regulated person shall apply CDD measures when establishing business relationship with a customer.

- ii. Regulated person is required to design/ update their systems which can generate alerts about the expiry of CNICs at least 01 month before actual date of expiry and continue to take reasonable measures to immediately obtain copies of renewed CNICs, whenever expired. It was observed that CNIC of six of its customers were expired and the Respondent did not have a system to generate alerts regarding expiration of CNIC in violation of Regulation 6.
- iii. The Respondent had not justified its decision in writing to rate two of its customers as low risk in contravention of Regulation 11(2) which requires that the decision to rate a customer as low risk shall be justified in writing by the regulated person.
- iv. The Respondent had not developed an independent audit function in violation of Regulation 4(d).
- v. Circular 10 of 2017 required the Respondent to maintain record of its clients who had traded in excess of Rs. 5 million during a month. However, the Respondent has not maintained record of four (4) of its clients whose net traded value during the month of January 2019 was greater than Rs. 5 Million.

3. It appeared from the preceding that the Respondent *prima facie* acted in contravention of the AML Regulations and Section 150 of the Securities Act, 2015. Accordingly, the Commission took cognizance of the aforementioned facts and served the SCN requiring the Respondent to explain its stance.

4. The Respondent was accorded an opportunity of personal hearing dated August 6, 2019. Mr. Mohammad Sohail and Mr. Muzzafar Iqbal (the “**Representatives**”) appeared for and on behalf of the Respondent and made following submissions verbally and subsequently through written reply.

- i. Documents submitted vide email dated August 19, 2019.
- ii. Our system generates Alerts about CNIC expiry (Screenshot copy provided to you on 19 Aug). We generate reports from the system of those whose CNIC are expiring, We then inform client and follow up with them to get the renewed CNIC. There is no trading in 06 accounts indetified by inspection team in last one year. Their ledger enclosed and follow up correspondence with 6 clients is also enclosed in file sent to SECP on 19 Aug, 2019. Written justification of both accounts provided to SECP. Support enclosed in file sent to SECP 19 Aug, 2019.





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- iv. *Independent audit function is outsourced since Jan 2019 (Engagement Letter enclosed in file sent to SECP 19 Aug, 2019). Before that it was done internally also informed to SECP during review. (Support enclosed in file sent to SECP 19 Aug, 2019).*
- v. *During review a lot of information was emailed to SECP. Data relevant to compliance of circular 10 was emailed again and Inform to SECP. SECP mentioned in point number 2.9 that subsequently TSL submitted the compliance report in which instances are reported. (Relevant page from SECP letter enclosed in file sent to SECP 19 Aug, 2019).*

5. I have examined the written as well as oral submissions of the Respondent and its Representatives. In regard to the observation relating to CDD of its clients, the Respondent provided documents to support its claim that it had adequately conducted CDD. However, in case of one client, whose salary slip reflected monthly income of Rs. 66,392 had purchased securities worth Rs. 5.03 million. The said amount of purchase does not commensurate with the disclosed income of the client. It reflects that the Respondent has failed to perform CDD of its client in terms of Regulation 6(c) of AML Regulations.

6. In regard to its failure to record reasons to rate two of its customers as low risk, the Respondent submitted KYC/CDD checklist. The said checklists does not substantiate the reasons for rating such customers as low risk. As the Regulations stipulate that the decision to rate a customer as low risk shall be justified in writing, the response of the Respondent is not satisfactory.

7. The Respondent contended that it has an in-house mechanism for identifying expiring CNICs and that it had made efforts to obtain renewed of expired CNICs. Analysis of the documents submitted by the Respondent suggests that it had a mechanism to generate alerts regarding expiring CNICs. Moreover, it had sent letters/e-mails to such clients which established that the Respondent had taken reasonable steps to obtain renewed CNICs, therefore, Respondent is not held accountable on this count.

8. The Respondent contended that prior to January, 2019 it has an internal audit department which has subsequently being outsourced. It also provided an internal audit report for the quarter ended March 31, 2019 and employment contract for the position of head of internal audit dated August 11, 2017. Therefore, Respondent is not held accountable on this count.

9. In regard to observed noncompliance of Circular 10 of 2017 for four of its clients, the Respondent contended that it had complied with the said circular. Given that the said circular has now been repealed, the matter is not being pressed further.





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10. In view of the para 5 & 6 above, contraventions of the provisions of AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act a penalty of **Rs. 200,000/- (Rupees two hundred thousand)** is hereby imposed on the Respondent. The Respondent is advised to ensure that the requirements contained in the AML Regulations are met in letter and spirit. A report in this regard shall be submitted to the Commission within sixty (60) days of the date of this order.

11. 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 the date of this Order and furnish Original Deposit Challan to this office.

12. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matter subsequently investigated or otherwise brought to the knowledge of the Commission.

Announced on  
Islamabad

6-9-2019



  
Shauzab Ali  
Commissioner (SMD)