



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I Adjudication Division

Through Courier

Before the Executive Director (Adjudication Department-1)

In the matter of Show Cause Notice issued to M/s. Arif Habib Limited under Section 40A of
Securities Exchange Commission of Pakistan Act, 1997

Date of Hearing	July 28, 2020
Present at the Hearing	i. Mr. Muhammad Shahid Ali (Chief Executive)
Representing Arif Habib Limited	ii. Mr. Muhammad Faizan (Compliance Officer)

ORDER

This Order shall dispose of the proceedings initiated against the Arif Habib Limited (the "Respondent") through Show Cause Notice No. 1(162) SMD/ADJ-1/KHI/2019/567, dated June 24, 2020 (the "SCN") under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the "Act").

2. Brief facts of the case are that the Company is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited ("PSX") and licensed as a securities broker with the Securities and Exchange Commission of Pakistan (the "Commission").

3. The inspection of Respondent was initiated by JIT vide inspection notice No. 1048 dated December 17, 2019. The scope of the inspection was limited to the areas of Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML Regulations"). The review of the Respondent was carried out by JIT which comprises of staffs representing Pakistan Stock Exchange Limited (PSX), Central Depository Company of Pakistan Limited (CDC) and National Clearing Company of Pakistan Limited (NCCPL). The JIT forwarded its findings vide its letter dated December 23, 2019 and the Respondent's reply was submitted vide its letter dated December 31, 2019.

4. The Review revealed that the Respondent, *prima facie*, was non-compliant with the AML Regulations, detailed as under.

- a. It was observed that one of the corporate clients of the Respondent had significant trading activity and custody in its account. However, the same did not commensurate with the level of income/ funds as established through the financial statements of the firm and the Respondent had not obtained necessary evidence with regard to source of funds used by the client for execution of trades in its account. Further, the Respondent also failed to establish the ultimate



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beneficial owner of this account. In view of the said instance, the Respondent acted in contravention of Regulation 6(3)(a), 13(2), 14(3) & 14(4) of the AML Regulations.

- b. One instance of a corporate client was observed wherein the client had significant custody and trading activity in its account and was market as "low risk". The Respondent submitted copy of financial statements as on June 30, 2018 for this client, wherein it was observed that source of funds of the client is loan from its directors however, the Respondent failed to obtain necessary evidence and details such as copy of tax returns or bank statement for its directors to ascertain and document nature and detail of source of income of ultimate beneficial owner of the investment. In another instance, an individual client (household) with Canadian Nationality was market as "low risk". It was observed that the client had significant custody and trading activity in its account during the review period however, the Respondent had not obtained copy of bank statement, tax return or gift deed and thus source of income of the beneficial owner was not determined. In view of the said 2 instances, the Respondent was found non-compliant with Regulation 6(3)(a) & 13(1) of the AML Regulations
- c. One instance of an individual client was observed, wherein the Respondent had not obtained evidence relating to source of funds used by the client in view of its significant custody and trading activity during the review period. The occupation of the client was mentioned as service and the Respondent had provided copy of salary certificate which was arranged subsequent to the observation highlighted during the inspection. Furthermore, the salary of the client did not commensurate with the level of trading activity and custody in its account. In view of the said instance, the Respondent was found non-compliant with Regulation 6(3)(c) of the AML Regulations. Further, the Respondent also acted in contravention of Regulation 13(2), 14(3), 14(4) and 14(6) of the AML Regulations which calls for On-going Monitoring of clients and Reporting of Transactions (STRs/CTRs).
- d. It was observed that the Respondent did not maintain database of beneficial owners of its clients to perform direct and indirect screening of its clients with the proscribed individuals. Further, it was also observed that the Respondent did not maintain database of nominees, authorized person, BoD/Trustees/ Office Bearers of its clients for TFS screening. The Respondent was therefore, found non-complaint with Regulation 4(a) read with Regulation 13(7) of the AML Regulations. The said instances also attract violation of Regulation 18(c)(iii) of the AML Regulations which requires the Compliance Officer to monitor, review and update AML/CFT policies and procedures, of the regulated person, Furthermore, in view of the absence of evidence for periodic screening, the Respondent also acted in contravention of Regulation 15(3) of the AML Regulations which requires that the records of identification data obtained through CDD process like copies of identification documents, account opening forms, Know Your Customer forms, verification documents, other documents and result of any analysis along with records of account files and business correspondence, shall be maintained for a minimum period of five years after termination of the business relationship





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- e. The Respondent did not validate the identity documents of its customers/ joint account holders and their nominees/ authorized persons through NADRA Verisys. The Respondent failed to provide evidence of NADRA Verisys in respect of 17 sample clients in contravention with Annexure I(Note i) of Regulation 6(4) of the AML Regulations.
 - f. Three instances were observed wherein the Respondent had failed to assign risk category to its client in contravention of Regulation 6(8) of the AML Regulations.
 - g. Eight instances of high risk clients were observed wherein the Respondent had failed to obtain senior management approval in contravention of Regulation 9(4)(a) of the AML Regulations.
5. In view of the aforesaid, the Respondent *prima facie* acted in contravention of the AML Regulations. The Commission therefore took cognizance of the aforesaid violations, issued SCN dated June 24, 2020 to the Respondent. The Respondent vide its letter dated July 24, 2020 submitted their response to the SCN, relevant extract of which is reproduced below:

Point 3(a) of the SCN:

"As regards to compliance with Regulation 6(3) of the AML Regulations, whereby we have duly obtained the identity of the Customer and beneficial owners through relevant company's registration documents (Memorandum and Articles of Association, Form A, Form 29 and List of Directors) with the Commission. In addition, the identity of beneficial owners/ Shareholders is verified through obtaining the National Identity Card of all the individuals, which is solely issued by the National Database and Registration Authority, whereby the relationship of the beneficial owners is determined. As far as knowledge of the customer and beneficial owners is concerned, it is pertinent to state that Arif Habib Group has long standing relationship with the client having billions of rupees of joint ventures and associations between the two groups, which is not only limited to securities brokerage relationship but also includes energy projects, fertilizers and advisory on several other projects initiated by the client. Further, we have not only obtained the identity of the client and the Holding company but also have knowledge of the whole group and their businesses.

In compliance with Regulation 13(2) of the AML Regulations, whereby we have provided explanation through our letter dated May 18, 2020, that the sole purpose/object of executing the said transactions was group restructuring on the part of customer, for this purpose we have obtained the extracts of Board Resolution from both the companies, which clearly specify the mechanism to execute the transaction. Also, we hereby submitted the Resolution passed by the Holding Company in their Extra Ordinary General Meeting (EOGM) dated October 01, 2019, whereby all the shareholder in the respective company have provided their consent to the said transaction. Both the parties to the agreement have provided their consent to the execution of the transaction in their account and also the same is provided in writing through EOGM Resolution and registered/ filed with the Commission.

With regard to the AML/CFT Regulations, please note that Regulation 13.2 provides as follows:

"Regulated person shall obtain information and examine, as far as possible, the





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background and purpose of all complex and unusual transactions, which have no apparent economic or visible lawful purpose and the background and purpose of these transactions shall be inquired and findings shall be documented with a view of making this information available to the relevant competent authorities when required".

Please note that for Regulation 13(2) to be applicable, the prerequisite is that the Regulated Person must be faced with a complex and unusual transaction. Please note that the conjunction used here is "and" and no "or". Therefore, the transaction has to be both complex and unusual. The subject transaction between the Holding Company and the Client is neither complex nor unusual. It was a simple trade for listed shares, including major portion pertains, between two companies, which according to what we were told by the customer, were owned by the same ultimate beneficial owners. The transaction was not unusual because such group restructurings are commonplace all over the world within large family owned groups of companies. Since the transaction was neither complex nor unusual (being within the same group of companies) there is no further cause to investigate whether it had any apparent economic or visible lawful purpose. This is not to say that the subject transaction did not have a lawful purpose because the client and the Holding Company have executed this transaction in the normal course of business (as part of a family group reorganization) at fair market values and their Memorandum and Articles of Association allow such sales and purchases of securities. As a result, we submit that we are not in breach of Regulation 13(2), 14(3) or 14 (4) of the AML Regulations.

We further reiterate that the beneficial owners of both the companies are same as they are owned by same families, therefore, on this fact the transaction does not declared to be void, inconsistent, unusual, and mainly based on transferring group company shares from one to other.

It is pertinent to state that the clients have mentioned the receivables/payables against this transaction in the Client and Holding Company accounts. The said action clarifies that the consideration to the said transaction will be paid/ settled in future in the normal course of trading/business.

Point 3(b) of the SCN

With respect to the corporate client, the Commission has highlighted that the source of funds of the client is loan from Directors. In this regard, we have enclosed herewith the profile of Directors of the client obtained at the time of account opening, whereby we received clarification regarding the various business involved within their group. We would like to draw your attention towards the knowledge about the customer obtained at the time of account opening, in order to ensure that their business relation with us will remain in consistent with their provided knowledge. For this purpose, the client had clarified that it is incorporated to manage the investments of Directors, the source of funds of Directors are derived from various business including, Energy Projects, Nonwoven Fabric, Molyfoams, Textile, Celeste, Chemicals, Home Fashion and Motor businesses. Please note that we also obtained the Audited Financial Statements of, whereby the major source of income of the Directors is mentioned and the same is audited by the reliable Audit Firm registered with Institute of Chartered Accountants of Pakistan. It is also pertinent to note that the profile of Directors provided to us by the client at the time of account opening was in line with AHL's own knowledge about the business and source of funds and risk profile of the said directors because of AHL's knowledge of the group. Please note that



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Regulations 13(1) also places emphasis regarding the knowledge of the regulated person about the customer and such knowledge can come from various sources. Since AHL is also in the business of investment banking it had knowledge about the affairs of group and its directors, through providing various advisory services to the said group, before and at the time of account opening through its other advisory mandates for the group. That is why it was fair and reasonable for AHL to rely upon such knowledge which supplemented the information obtained from the client with regard to their directors and was further supplemented upon receipt of audited accounts.

With regards to marking of low risk, considering the significant custody and trading activity in client account, whereby we have duly applied the regulation 6(8) of AML Regulations, which require us to apply the Customer Due Diligence Procedure on each customer and on the outcome of the same we have to categorized a client as high or low risk. Please note that the Ultimate Beneficial Owners of the client belong to a renowned group and we have duly obtained all the requisite source documents to identify and verify the same. Therefore, there was no reason to categorize this client as medium or high risk because ultimately AML Regulations give the regulated person discretion to categorize its clients in accordance with market norms. Since this customer and its ultimate beneficial owners were not involved in any activities, businesses or profession that would be considered as High Risk, categorizing this client as high or medium risk on the basis of significant custody and trading activity is not required in the context of the AML Regulations.

With regards to the individual Account, whereby KYC documents of the client vis-a-vis the KYC documents of beneficial owner was provided, please note that the beneficial owner of this account is , his relationship with the account holder is (Mother; client), (Son; beneficial owner) which was established through their respective NICOPs (enclosed herewith). We would like to reiterate that is the Managing Director of and also one of the owner/Family members of Group.

In continuation to the above briefing, we have assessed both the account on the basis the Group profile and the same was considered while establishing business relationship with the account holders. Please note that Regulation 6(3) provides that:

"identifying the customer or beneficial owner and verifying the customer's/beneficial owner's identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources;"

As can be observed, the AML Regulations only require verification of the customer or the beneficial owner and not both. In the instant case, the beneficial owner had been verified at the time of account opening and, therefore, we were and remain in full compliance with Regulation 6(3)(a) and Regulation 13(1) of the AML Regulations. Further, as the AML Regulation is subjective in nature, and in addition to the sufficient knowledge of the Directors of the client at the time of account opening and during the ongoing due diligence process, therefore in compliance with the guidance provided by the Commission through its Show Cause Notice, regarding the documentary requirement of the Directors of the client, whereby we have obtained/ attached the summary page of income tax returns of all the three Directors of the client and also the copy of the Bank statement of Director





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through which they have transferred funds/provided loan to the client for further investment in stock market, which suffice the source of income of the corporate client and also for the individual client.

Point 3(c) of the SCN:

With respect to compliance with Regulation 6(3)(c) of AML Regulations, we acknowledge that CDD is a continuous and ongoing process and submit that we have duly applied CDD measures and continuously perform thorough monitoring of account/ transaction of our clients on an ongoing basis in order to ensure that the transactions are conducted with the regulated person knowledge of the customer. It is pertinent to note that AHL was mandated with demerger, advisor and arranger and also for listing of Limited in order to raise PKR 5.025 billion which was the highest ever funds generated by a private company in the history of Pakistan. We therefore have obtained sufficient knowledge of the Sponsors and substantial shareholders of the Limited before the time of account opening of Mr..... Below are the brief points of the knowledge obtained from the customer before having business relationship with the respective client.

- ✶ The Client is a substantial shareholder of Limited, and also a sponsoring shareholder in the said company.
- ✶ He is currently working on Key Business Executive position in the said company and holding a position of Vice President.
- ✶ His monthly salary is PKR 714,000/ month.
- ✶ He had only executed transaction in the shares of Limited and the disclosure in this regards has been timely made by the company to PSX.

It is pertinent to note that CDD is a broader concept which includes as per Regulation 6(3)(a) of the AML Regulations:

“identifying the customer or beneficial owner and verifying the customer’s/beneficial owner’s identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources”.

Accordingly, CDD does not include information obtained only from the customer and can be obtained through independent sources. Given that AHL advised Limited on its IPO it has substantial knowledge of its key management/directors and the business of which is a listed company with information about its directors and the company available publicly. Furthermore, please note that the client did not execute any transaction in scrips other than Limited, which needs to be considered in respect of AML Regulations as this was in accordance with the customer’s risk and business profile. Also, the client is substantial shareholder in the respective scrip, therefore he had only executed transactions in accordance with the knowledge available to us. Considering the same we have duly provided the CDD documents to the JTT Team and believe that there has been absolutely no breach of Regulation 6 of the AML Regulations with regard to this client.

Point 3(d) of the SCN:

At the outset, it is a recognized fact that Arif Habib Limited Integrated Management Information System is a sophisticated and advanced screening software recognized by the Commission and the financial sector as being capable of handling AML and CFT screening of our clients. With regards to the compliance and maintenance of





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database of beneficial owner of our clients, nominees, authorized person and BoD/ Trustee/ Office bearers, whereby we have thoroughly provided the screenshot of performing screening through the list of proscribed person of all the relevant persons at the time of Inspection. Further, we have mentioned that we do not maintain client wise list of the same, as our database was only available with the name and identification number of all the aforementioned classes of office holders. In addition, we do perform screening of these individuals as and when required through our Arif Habib Limited Integrated Management Information System, whereby complete and updated list of all the proscribed person and entities are available.

We believe that direct and indirect relationship of client could only be assessed, if the client is in financial support of other relative then that person will be deemed to be in his indirect relationship.

With respect to periodic screening of clients from the list of proscribed person/ entities, whereby we would like to highlight the process of screening, by which we perform screening of clients and also periodic screening. Our processes includes addition of proscribed individual/ entities, at the time of notification, in our overall proscribed person list as mentioned above and there after we perform screening of our overall client data base with same. By following this procedure, we perform screening of our client through the overall list maintained by us, which is usually in between three to fifteen days. Further, with regards to maintenance of records of performing the screening of our clients, whereby we have duly and timely reported the same to SECP through their portal, whereby no non-compliance has ever been witnessed by the SECP. This proves that compliance of the performance of screening was duly conducted.

There is no mention in Regulation 15(3) of any obligation on the regulated person to maintain a record of the actual screening that was undertaken by AHL in respect of its customers. The fact is that AHL always conducts such screening and the result of the analysis, where such analysis is satisfactory, is that the relevant account is allowed to be opened by the Chief Compliance Officer. However, the actual search data was not saved previously and this was not a violation of the AML Regulations because there is no such requirement to keep a record of search data. We do, however, keep a record of all identification, KYC and account opening documents which is all that is required pursuant to Regulation 15(3). Furthermore, there was no clarification from the Commission that screening data also had to be saved. However, now that the Commission has kindly confirmed and clarified the same, we will ensure that henceforth all such data in screening data is saved and maintained on client files.

We would like to draw your attention that currently we maintained client wise list of beneficial owners, authorized person, nominees and office bearers/ trustees/ BoD. Also, we maintain the record of all the reporting made in this regards.

Point 3(e) of the SCN:

We do verify our clients identity through NADRA e-Sahulat portal (specimen of the verification conducted is enclosed herewith), whereby the content available on the client CNIC/NICOP are verified, whereas the Signature of the client is not available in the said portal. Please note that we have duly provided the identification documents of the required clients on sample basis to the Joint Inspection Team, as they have





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communicated that sample CNIC verification documents is required. With respect to the requirement of NADRA verisys, as per Annexure 1 of AML Regulations, which was not available with us at the time of inspection, due to the reason of high cost involved in verifying each client CNIC through that portal. Therefore, we believe that we have duly complied with the regulation stated below and spirit of the law has not been violated in any case. In fact, keeping in view the concerns of the industry with regard to the expensive verification exercise, SECP issued a circular dated March 29, 2020, whereby it allowed regulated persons to conduct verification using either NADRA verisys or another one-time verification software. Since as per our knowledge, NADRA only provides two software systems for verification, the other software must be the e-Sahulat portal. Accordingly, since SECP has now given this dispensation itself, we believe that AHL is not in non-compliance having undertaken all necessary client verifications both in letter and spirit of the AML Regulations.

Regulation 6(3) (a) of the SECP (AML & CFT) Regulations, 2018 states as under;

"Customer due diligence (CDD) in broader term include. Identification the customer or beneficial owner and verifying the customer's / beneficial owner's identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources;"

In addition, we would like to accentuate that SECP upon the request of stake holders has launched the ease of registration of NADRA system on March 29, 2020, whereby the accessibility of NADRA verisys system and one time verification of client identification document is available with low cost.

Therefore, we request the Commission to accept the e-Sahulat verification of NADRA, as the same also satisfy the requirement stated in the aforementioned regulation.

Point 3(f) of the SCN:

In this context, we would like to inform you that we have duly complied with the regulatory requirements with respect to KYC/CDD and all the requisite documentary evidence have been duly obtained. Further, we have duly assigned AML risk category to each of our client and the complete list of client risk categorization had been shared with the JIT Supervisor on December 18, 2019. We have re-checked our shared file, whereby none of the client found to have unassigned risk category. We therefore request the Commission to review the same with the already provided data which is re-attached herewith. Considering the same we have complied with the regulation 6(8) of AML Regulations.

Point 3(g) of the SCN:

With regards to the senior management approval in eight instances was not available, we would like to clarify that it is our standard practice that senior management approval is obtained as a matter of routine for all our clients. This is because as per our standard operating procedures (as part of our AML Policy which has already been provided to the Commission), the undersigned Chief Compliance Officer approves all our account opening forms and signs all such forms. The definitions of the AML Regulations provide that the term "senior management" includes the Chief Compliance Officer. Accordingly, we have complied with Regulation 9(4)(a) both in letter and spirit of the AML Regulations."





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6. The Respondent was accorded hearing opportunity on July 28, 2020 which was attended by Mr. Muhammad Shahid Ali (Chief Executive) and Mr. Muhammad Faizan (Compliance Officer) as Authorized Representatives on behalf of the Respondent. The Authorized Representative reiterated the arguments as provided in response to the SCN. During the hearing, the Respondent was further inquired on several observations highlighted in the SCN. Subsequently, the Respondent made additional submissions vide its email dated July 30, 2020, extract of which is provided as under:

- *"With regards to Observation A, we were asked to provide the consent letter received from the client, signed by the Director of the Company, in this regard, we have attached the same for your kind consideration. Further the consent letter received from the Holding Company are also attached herewith for your reference.*
- *With respect to Observation B, whereby we were asked to provide the Dividends and Remuneration (funds) received by the Directors of the clients from..... In this regard, we have enclosed herewith the separate page extracted from the June 2018 Audited Accounts of, whereby the Dividend paid to the shareholder of the company is disclosed in their Statement of Changes in Equity which suffice the requirement of obtaining documents in support of source of income of the Directors of the client at the time of account opening.*
- *With respect to Observation D, whereby we were asked to provide the implementation date of AHL Integrated Management Information System (AHLIMS) and also the screenshot of the module implemented till date. In this regard, we have attached herewith the confirmation email to SECP regarding Implementation date of AHLIMS. Further, the screenshot of the overall screening module and also the screening of Account Holders, Nominees, Authorized Person/ Office bearers, and Directors/Trustees are also attached herewith.*
- *With respect to Observation F, we would like to inform you that risk categorization of Sub A/c # 17997, bearing client code CC3361, was already mentioned in our shared file namely 'Client Risk Categorization Report' snap shot attached. Further, the Sub Account number 62985 and 63124 was operated after the inspection date i.e. November 30, 2019, which was not inquired by the Inspection Team, as we have provided the risk categorization of clients operated till November 30, 2019.*

7. I have examined the written and oral submissions of the Respondent. In this regard, I observe that:

- i. With regard to the observation regarding trading activity of the corporate client, the Respondent had submitted that it had obtained the identity of Customer and beneficial owners through relevant company's registration documents. Further, the identity of its beneficial owners/ Shareholders is also verified through obtaining identity documents of all individuals. Further, the Respondent also provided that they have a long-standing relationship with the Client group of companies having joint ventures and associations between the two groups. The inspection team had observed that the client had significant trading activity in the account in response to which the Respondent provided that the transaction was carried out between two associated companies





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having common directorship in a negotiated deal arrangement for which they have obtained extract of board resolutions/ consent letters from both the companies which also specify the mechanism to execute such transactions. It has been observed that the shareholders of the said client also hold majority shareholding in the transferor company thereby exercising effective ownership and control over both the associated companies as per the requirement of AML Regulations. In view of the said, both companies effectively have common beneficial owners belonging to same family. The requisite documentation with respect to identification of beneficial owners and extract of Board Resolutions/ Consent letters were obtained prior to the inspection and were also provided in response to the Letter of Findings shared with the Respondent. The stance of the Respondent appears to be tenable.

- ii. With regard to the information regarding the source of funds/ income of ultimate beneficial owner for a corporate client, the Respondent submitted that they had already obtained profile of all directors of the said client at the time of account opening. The Respondent provided that the directors of the corporate clients are also directors/ shareholders in major energy corporation. The Respondent was inquired regarding the remuneration of directors from the energy corporation. The Respondent thus provided extracts from the June 2018 Audited Accounts of the energy corporation, whereby the Dividend paid to the shareholder of the company is disclosed. However, it has been observed that information pertaining to the remuneration/ dividends were not provided at the time of inspection. Further, it has also been observed that the tax returns with respect to the directors of the said corporate clients were also acquired subsequent to the observation of the inspection team. The classification of client as "low risk" based on insufficient information pertaining to their source of income/ funds for such significant activity may not be regarded as tenable. Further, with regard to the beneficial ownership of the individual household client, the Respondent submitted that the client's son is the beneficial owner of the account which was established through their respective NICOP. However, information pertaining to the source of income/ funds of the beneficial owner was provided subsequent to the observation of the inspection team. The Respondent is therefore, found non-compliant with Regulation 6(3)(a) & 13(1) of the AML Regulations.
- iii. With regard to the source of income/ funds of an individual client, the Respondent had submitted that the said client is a substantial shareholder & vice president in a public limited company. The Respondent further provided that they have advised and arranged for the listing of the said public limited company and therefore, has acquired information pertaining to management/ directorship of the business. Moreover, the Respondent also submitted that the client had only traded in the shares of the said company for which they have arranged for the listing on PSX. In this regard, the Respondent had provided salary certificate and copy of online NTN Verification for the client which was arranged subsequent to the inspection. Although, the Respondent had arranged for the listing of the said company however, it does not absolve its responsibility to acquire information pertaining to the source of income/ funds used in the purchase of shares. The Respondent may therefore, be held accountable for violation of Regulation 6(3)(c) of the AML Regulations.





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- iv. With regard to the observation regarding the database of beneficial owners, nominees, joint account holders, authorized persons, directors, the Respondent had provided screenshot of related to their screening however, the said documents do not mention date of screening performed. Further, such documentary evidence pertaining to the maintenance of database of beneficial owners/ BoDs/ authorized persons/ nominees/ trustees/ office bearers were not provide during the inspection. The Respondent had provided screen shot of its screening system however, such database was found to be deficient with respect the aforementioned categories of clients and their associated individuals due to which its effectiveness and completeness could not be ensured. Therefore, the Respondent was found to be non-compliant with Regulation 4(a) read with Regulation 13(7) of the AML Regulations. Further, with regard to the maintenance of record in respect of screening of its clients, the Respondent contended that Regulation 15(3) of the AML Regulations does not require the regulated person to maintain a record of actual screening. However, it may be noted here that the Regulation 15(3) of the AML Regulations requires to maintain records of identification data obtained through CDD process like copies of identification documents, account opening forms, KYC forms, verification documents and results of any analysis along with records of account files and business correspondence for a minimum period of 5 years after the termination of business relationship. Therefore, the results of the screening process may be maintained as a result of analysis of the said accounts. The Respondent is advised to retain evidence of its periodic screening process even if its "Nil".
- v. With regard to the observation regarding NADRA Verisys of its clients, joint account holders, authorized persons, nominees, trustees and BoDs in case of 17 client accounts, the Respondent had submitted that they verify the client's identity through NADRA E-sahulat portal for which specimen was provided in response to the SCN. The Respondent had provided copies of E-sahulat verification documents in respect of 5 clients which was arranged subsequent to the findings of the inspection team. In this regard, the Respondent had failed to produce verification documents for the remaining 12 client accounts. The observation thus reveal that the Respondent had not carried out the Verisys or E-sahulat verification of all its client accounts and their associated individuals in absence of which it was found to be non-compliant with Regulation 6(4) read with Annexure I (Note i) of the AML Regulations.
- vi. With regard to the observation regarding the non-categorization of risk to three of its clients, the Respondent provided that the name of one client was appearing in the list which was already shared with the inspection team. Moreover, the risk category of the remaining clients was also provided. The Respondent provided that they have duly assigned risk category of all of its clients and evidence of which was also shared with the inspection team. The Respondent may not be held accountable in the matter however, it is advised to be careful with respect to the risk categorization of all its clients at the time of account opening and maintain complete database. Further, the Respondent is also advised to be vigilant with respect to any change in risk categorization and updating its records accordingly.





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vii. With regard to the senior management approval of its high-risk clients, the Respondent had submitted that it is obtained through compliance officer's approval on the account opening forms. The Respondent further contended that the definition of Senior Management also includes Chief Compliance Officer as per the AML Regulations. The argument of the Respondent holds ground however, the Respondent may note that Regulation 9(4)(a) of the AML Regulations requires *Senior management approval to establish or continue business relationship with high risk clients*. Therefore, senior management approval is required for continuity of business relationship with high risk clients as per their trading profile and data in coordination with the operations department which may provide valuable input on the same. Further, in case of change in risk category from "low to high" or "medium to high", the requirement for senior management approval is invoked which cannot be absolved through signatures on the account opening form. Therefore, the Respondent's argument in this regard is not tenable as the signatures of the compliance officer is a requisite for the account opening rather than business relationship particular to the high-risk clients. Therefore, the Respondent is found in contravention of Regulation 9(4)(a) of the AML Regulations.

8. In view of the foregoing and admission made by the Representatives, contraventions of the provisions of AML Regulations & Licensing Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of **Rs. 875,000/- (Rupees Eight Hundred and Seventy-Five Thousand Only)** is hereby imposed on the Respondent. 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 date this Order and furnish the original deposit challan to this Office. Further, the compliance officer of the Respondent is strictly advised to ensure that its AML/CFT policy is being updated in a timely manner as per the requirements of the AML Regulations

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



(Ali Azeem Ikram)

Executive Director – Adjudication Department-1

Announced on September 15, 2020

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