

Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to M/s. Highland Securities (Pvt.) Limited

Date of Hearing

Hearing opportunity was waived by the Broker.

Order-Redacted Version

Order dated July 13, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Highland Securities (Pvt.) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated May 19, 2020
2. Name of Company	Highland Securities (Pvt.) Limited
3. Name of Individual*	The proceedings were initiated against the Company i.e. Highland Securities (Pvt.) Limited and its Compliance Officer.
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for the violations of Regulation 4(a), 4(d) and 18 c(iii) of the AML and CFT Regulations, 2018 and Regulation 29(5), 16(9)(e) & (f) of the Licensing Regulations.
5. Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have examined the submissions of the Respondent. In this regard, I observe that:</p> <ol style="list-style-type: none">i. With regard to the deficiencies in AML/CFT Policy, the Respondent denied the allegation and provided that the observations highlighted in the SCN were adequately addressed in their earlier policy which was approved by its Board of Directors in November, 2018 and the copy of which was also shared with the Commission. I have analyzed the copy of AML/CFT policies provided by the Respondent and found that it sufficiently covers the areas as highlighted by the Inspection team. The viewpoint of the Respondent in this regard is tenable hence, it cannot be held accountable in the matter of violation of Regulation 4(a) & 18(c)(iii) of the AML Regulations.



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- ii. With regard observation regarding the Compliance function, the Respondent had submitted that it has limited resources and clientele. Further, its Compliance officer had not submitted detailed working of AML/CFT aspects and did not found any non-compliance in this regard. The said arguments of the Respondent do not hold merit. The compliance report of the Respondent does not mention of the detailed aspects of the AML/CFT compliance so whether or not there was any non-compliance of the AML Regulations could not be evident from the given compliance report. Copy of Respondent's compliance report as submitted during the review reveals that it only covered the entity level risk assessment of the House. The Respondent's compliance report was found to be deficient with respect to the detailed aspects of AML Regulations. Further, the Respondent's compliance reports were prepared on six-monthly basis rather than on monthly basis. In view of the said instances, the Respondent is found to be non-compliant with Regulation 16(9)(e) & 29(5) of the AML Regulations. Further, the Respondent is advised to cover detailed aspects of AML/CFT in its compliance report for future reporting.
- iii. With regard to the observation regarding the internal audit, the Respondent had submitted that it has limited resources and has hired a competent individual as internal auditor. Further, the Respondent has mentioned of various submissions/ reporting carried out by the internal audit. However, during the review a letter from the Respondent revealed that the internal auditor reports to both CEO and Board of Directors in contravention with Regulation 16(9)(f) of the Licensing Regulations. Further, the copy of internal audit report as provided by the Respondent during the review revealed that it was missing various AML/CFT aspects as provided in clause 15(a) of AML/CFT Guidelines issued by the Commission in September, 2018. The said instances reveal ineffectiveness of the Respondent's internal audit function to test its AML/CFT systems and raises concern regarding the independence of the internal audit. Therefore, the Respondent is found to be non-compliant with Regulation 4(d) of the AML Regulations and 16(9)(e) & (f) of the Licensing Regulations. Further, the Respondent is advised to ensure that its internal audit is carried out as per the requirements of the AML Guidelines and AML Regulations as issued by the Commission.

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. 200,000/- (Rupees Two Hundred Thousand Only) is hereby imposed on the Respondent. Further, in terms of powers conferred under section 150 of the Securities Act 2015, a penalty of Rs. 50,000 (Rupees Fifty Thousand Only) is also imposed on the Respondent.



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	Penalty order dated July 13, 2020 was passed by Executive Director (Adjudication-I).
6. Penalty Imposed	A penalty of Rs. 200,000/- (Rupees two hundred thousand only) under section 40A of the Act and a penalty of Rs. 50,000 (Rupees Fifty Thousand Only) under section 150 of the Securities Act 2015 was imposed on the Company.
7. Current Status of Order	An appeal has been filed against this Order.

Redacted version issued for placement on the website of the Commission.