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

**In the matter of Show Cause Notice issued to JS Investment Management Limited**

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| Date of Hearing | January 21,2020 |

**Order-Redacted Version**

Order dated March 9, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of JS Investment Management Limited (JSIL). Relevant details are given as hereunder:

| Nature | Details |
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| 1. Date of Action | Show cause notice dated January 10 ,2020 |
| 2. Name of Company | JS Investment Management Limited |
| 3. Name of Individual* | Not relevant. The proceedings were initiated against the Company i.e. JSIL |
| 4. Nature of Offence | Proceedings under Section 40A of SECP Act, 1997 for violations of inter-alia Regulation 4(d), 6(5a), 6(8), 9(4) and 13(3) of AML and CFT Regulations, 2018 |
| 5. Action Taken | Key findings of default of Regulations were reported in the following manner:<br><br>I have analyzed the facts of the case, considered the documentary evidence placed on record and the arguments put forth by the Respondent Company. I am of the considered view that the submissions by **JSIL** are not plausible on the basis of the following reasons;<br><br>**(i).** In its reply, **JSIL** has asserted that in order to refresh and update the KYC status, it dispatches letters to "**Inactive**" Account Holders to their addresses on an annual basis and in May 2019 had carried out an extensive exercise of dispatching follow up letters and emails for the recovery of missing/ incomplete documents from such clients. Similarly, **JSIL** has informed that notices are issued every year that are published in the leading English and Urdu newspaper for unregistered clients. As also informed by **JSIL** out of 723 inactive accounts, 657 accounts have nil balance while only 64 accounts have balances over zero. **JSIL** should develop a plan to deal with those inactive accounts after following due process of communicating to the respective account holders.<br><br>As for the 624 unregistered clients of the close end funds which were converted to open end funds in 2010 and 2013 respectively, it has been noted with concern |

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| | that sufficient time has been provided to the clients to register. Therefore, it is advised that **JSIL** should follow the same strategy as suggested for inactive account holders above.<br><br>Nevertheless, following from above, violation of Regulation 6(5a) of AML and CFT Regulations 2018 has been established. In the absence of requisite documents/information, as mentioned above the complete screening of unitholder database cannot be ensured. The absence of such critical information is likely to expose the company to inefficient screening of its customers with SROs/notifications issued by NACTA/provincial governments/ Ministry of Foreign Affairs, etc. and simultaneously expose it to greater risk of developing business relation with a proscribed /designated individual.<br><br>**(ii).** In my view, categorization of clients into high risk and low risk being done manually on the basis of the investment size in a particular fund, is not an accurate assessment of risk. While a client making small investment in one fund would be considered as low risk, the same client making a sizeable investment in another fund would constitute a high-risk customer. JSIL failed to realize that if consolidated investment of that client would have been calculated, he would have actually been assigned a high-risk category, as per the underlying criteria of investment size. Since the underlying principle of assigning risk categories was inadequate, the categorization proved to be erroneous thus constituting violation of Regulation 6(8) of AML and CFT Regulations 2018.<br><br>**(iii).** As informed by JSIL, customer review in accordance with the AML/CFT policy, approved by the Board was conducted after 3 years for high-risk customers and 4 years for low risk customers. In my view, the time span is too long for review of compliance with the requirements of the AML/CFT Regulations and guidelines. JSIL needs to reconsider increasing the periodic review frequency. However, it was informed by JSIL that it has made necessary developments in its ERP System in order to automate the monitoring requirements. Nevertheless, during the time of inspection, transactions of customers were not being monitored and JSIL had developed neither a software system for KYC/CDD and TFS monitoring nor an automated alert generation system. Keeping in view these discrepancies violation of Regulation 13(3) of the AML and CFT Regulations 2018 is established.<br><br>**(iv).** I have noted that JSIL in its reply has informed that the Internal Audit department of JSIL has prepared its comprehensive report consisting of observations and recommendations on implementation of AML Regulation for the last quarter of calendar year 2019, due to be discussed in the upcoming Audit committee meeting to be held in February 2020. However, during the course of inspection, JSIL was unable to provide the audit report to the inspection team. Moreover from the Internal Audit reports submitted by JSIL vide emails in reply to SCN, it was also observed that the matter of internal |

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| | audit of the AMC in context of implementation of AML & CFT Regulations had not been addressed. Therefore, it could not be established that JSIL was compliant with the requirement of Regulation 4(d) of AML and CFT Regulations 2018.<br><br>**(v).** With respect to the observation on non-availability of source/proof of income of customers in five instances, JSIL is itself highlighting that "*amount of investment may not correlate with source of income; however, the aggregate wealth of an investor may be assessed".* In the light of this statement, the source/proof of income cannot be sufficient evidence to determine the accumulated wealth and therefore forms even more reason to obtain all requisite documents to determine the actual source of wealth or investment, which should also have been obtained from all the 5 customers mentioned in the SCNF. It is pertinent to mention that in all 5 instances the customers were marked as High Risk while the determination of source of income was based on assumptions thus constituting violation of Regulation 9(4)(b) of AML and CFT Regulations 2018.<br><br>In my view **JSIL** is an asset management company with a diverse customer base and a professional management. It is the obligation of the management to ensure that it is implementing the AML and CFT Regulations in its letter and spirit. I have noted the efforts that **JSIL** has made with respect to development of systems to ensure compliance with the AML and CFT regulatory framework. It is important to understand that any lapse in compliance of the same poses a serious threat to national interest. Therefore, there is a need to make serious and effective measures to mitigate money laundering and terrorist finance risk. It is my firm opinion that JSIL is required to focus on the review and monitoring on a continuous basis.<br><br>I also hereby direct the Respondents to report within 30 days of the date of this Order and provide documentary evidence to the supervision team of SECP that:<br><br>• the oversight mechanism to review the implementation of AML/CFT policy and procedures has started functioning;<br>• frequency of compliance review with the requirements of the AML/CFT Regulations and guidelines has been increased;<br>• strategy for completion of KYC requirement of the unregistered/inactive accounts has been formulated and has started to be implemented;<br>• screening of all clients, their beneficial owners, associates and facilitators has been completed; and<br>• risk profiling of all the clients has been completed;<br><br>However, based on my observation, I am of the considered view that leniency on non-compliance towards requirements of Regulation 4(d), 6(5a), 6(8), 9(4) and 13(3) of AML and CFT Regulations, is not possible, since SECP is responsible for ensuring implementation and enforcement of the applicable |

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| | regulatory framework by entities that fall under its regulatory ambit. Therefore, I hereby conclude the proceedings initiated under section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 by imposing an aggregate fine of Rs. 250,000/- (Rupees Two Hundred and Fifty Thousand Only) on the Respondent.<br><br>Penalty order dated March 9, 2020 was passed by Executive Director (Adjudication-I). |
| 6. Penalty Imposed | A penalty of Rs. 250,000/- (Rupees two hundred and fifty thousand) was imposed on the Company. |
| 7. Current Status of Order | No appeal was filed. |

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