



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)
Adjudication Department

Through Courier

File No. 1(38) SMD/ADJ/ISB/2018

October 29, 2018

Pine Securities (Private) Limited,
Through its Chief Executive officer,
511, 5th Floor, ISE Tower,
55-B, Jinnah Avenue Blue Area,
Islamabad.

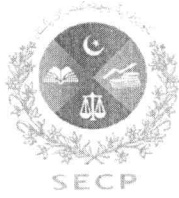
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(38) SMD/ADJ/ISB/2018

Dear Sir,

Please find enclosed herewith a copy of order in the title matter for your record and necessary action.

Yours truly,

Kamal Ali
Additional Director



Securities and Exchange Commission of Pakistan
Securities Market Division

Before the Commissioner (SMD)

In the matter of Show Cause Notice Issued to
Pine Securities (Private) Limited

<i>Date of Hearing</i>	<i>September 19, 2018</i>
<i>Present at the Hearing</i>	<i>Muhammad Arshad Swati, Director</i> <i>Zahoor Ahmad, Compliance Officer</i>
<i>Place of Hearing</i>	<i>In person at the SECP, NICL Building, Jinnah Avenue,</i> <i>Blue Area, Islamabad</i>

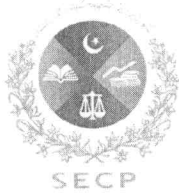
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(38) SMD/ADJ/ISB/2018 dated September 03, 2018. The SCN was served on Pine Securities (Private) Limited (“**Respondent**”) by the Securities and Exchange Commission of Pakistan (“**Commission**”) under section 150 of the Securities Act, 2015 (“**Securities Act**”). The Respondent is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited (“**PSX**”) and licensed as a securities broker with the Commission under the Securities Act and the Securities Brokers (Licensing and Operations) Regulations, 2016 (“**Brokers Regulations**”).

2. Brief facts of the case leading to issuance of SCN are that the Commission vide order dated September 07, 2017, in exercise of the powers conferred under section 138 of the Securities Act, conducted inspection wherein a thematic review of compliance status of regulatory requirements relating to Anti Money Laundering (“**AML**”), Know Your Customer (“**KYC**”) and Customer Due Diligence (“**CDD**”) was carried out of the Respondent. The inspection report dated June 29, 2018 (“**Report**”) *inter alia* revealed the following:

- (i) The KYC/CDD/AML policy of the Respondent lacked filing of Report on Currency Transactions (CTR) as required under the KYC/CDD Guidelines of PSX read with the Anti-Money Laundering Act, 2010 and Anti Money Laundering Regulations, 2015.
- (ii) The Respondent’s KYC/CDD/AML policy for its management and staff requires that any suspicious transaction or STR is required to be reported to the Commission. However, the KYC/CDD Guidelines of PSX read with section 7 of Anti-Money Laundering Act, 2010 require that the STR be reported to Financial Monitoring Unit (FMU).
- (iii) It was observed that in the case of following customers of the Respondent, the same individual i.e. Muhammad Irshad Swati, CEO of the Respondent, was the authorized person for each account irrespective of whether the customer is his family member or not. Further, the authorities given to the authorized person includes, (a) to place orders and to sign the confirmation letters, (b) to receive and make payment in client’s account, (c) to receive original bills or copies of bills, proceeds and copies of account statement on client’s behalf. This was also accepted by the Respondent and rectified:





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Client Name	Name of authorized person	Relationship of authorized person with client
Abdul Wahid Chughtai	Muhammad Irshad Swati	Friend
Yasar Khan Swati	Muhammad Irshad Swati	Father
Habib un Nissa	Muhammad Irshad Swati	Husband
Amina Jahangir Swati	Muhammad Irshad Swati	Father
Jaweria Sajjad	Muhammad Irshad Swati	Father
Maria Adeel	Muhammad Irshad Swati	Father
Maria Tayyab Swati	Muhammad Irshad Swati	Brother
Adil Khan Swati	Muhammad Irshad Swati	Father

Review of contents of the authorizations revealed that original statement and bill would also be received by the authorized person who is the CEO of the Respondent. Therefore, in view of common authorized person of almost of all clients and nature and contents of authority, in case of dispute between the customer and the Respondent there will be no complete audit trail as required under regulation 25(4) of the Securities Brokers (Licensing and Operations) Regulations, 2016.

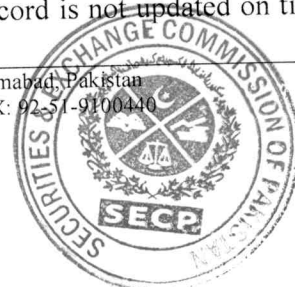
- (iv) Review of KYC forms, account opening forms and CDC sub-account opening forms of the following customers of the Respondent revealed that details relating to customers' investment profiling as required under clause 3.6 and 3.7 of the KYC/CDD Guidelines of PSX have not been documented by the Respondent:

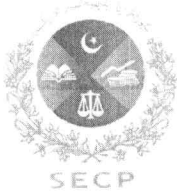
Sr#	Client Name
1.	Muhammad Irshad Swati
2.	Yasar Khan Swati
3.	Habib un Nissa
4.	Amina Jahangir Swati
5.	Jaweria Sajjad
6.	Maria Adeel
7.	Muhammad Tayyab Swati
8.	Abdul Wahid Chughtai
9.	Kamran
10.	Aadil Idrees Chaudhry
11.	Adil Khan Swati

- (v) As per Circular 10 of 2017 issued by the Commission, the Respondent is required to maintain information and details on monthly basis about the customers who have crossed the prescribed threshold as prescribed in the said Circular. It was observed that the following cases were not included in the details maintained by the Respondent as required under the Circular:

Name	Trading for the month of Aug 2017	Minimum threshold as per the circular	Month
Mr. Yasar Khan Sawati	Rs.8.9 million as per information provided by the Respondent	Rs5 million in respect of individual client	August 2017
Mr. Yasar Khan Sawati	Rs.6.6 million as per information provided by the Respondent	Rs5 million in respect of individual client	July 2017
Mr. Muhammad Irshad Swati	Rs.13.9 million as per information provided by the Respondent	Rs5 million in respect of individual client	July 2017

- (vi) While reviewing account opening forms and other related details of a customer namely Kamran bearing account code: 40010024 the following mismatches were observed which illustrates that the customer's record is not updated on timely basis





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and on-going due diligence was not performed as required in the KYC/CDD Guidelines of PSX:

- a. Name of business as per CDC sub-account opening form is "Al-Jannat Marbles" having address as Dhoke Hassu, Railway Carriage Factory, Rawalpindi. As per taxpayer online verification sheet the business name is appearing as "Stone World" having business address as "1, AYAN MARKET NEAR XEN IESCO OFFICE, MAIN GT ROAD T-CHOWK RAWAT, URBAN, ISLAMABAD".
- b. The business nature as per taxpayer online verification is appearing as 'service provider' whereas copy of business card attached with the account opening form for Stone World shows marble and granite wholesale dealer. Furthermore, the tax payer online verification showing that Income Tax w.e.f. 14-December-2016
- c. The KYC form is dated as 13-01-2016 whereas as per Account Opening Form it was opened on 28-2-2011 and revised on 24-10-2016.
- d. As per record provided, the CNIC of customer was verified through Verisys on October 25, 2016.
- e. The date of signature of the customer as well as the broker as per CDC sub account is appearing as 28-02-2011.
- f. The date of signature on FACTA Form is appearing as October 24, 2016.
- g. The account set up report of customer is dated October 16, 2017.

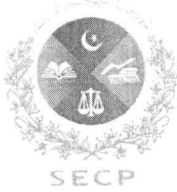
3. It appeared from the foregoing that the Respondent *prima facie* was in violation of section 74(b) of the Securities Act, regulations 16(1)(k) and 25(4) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations and the Know Your Customer & Customer Due Diligence Guidelines issued by PSX on March 16, 2012.

4. The Commission took cognizance of the aforementioned alleged violations and served the SCN dated September 03, 2018 under section 150 of the Securities Act to the Respondent. The Respondent was called upon to Show Cause in writing within seven days from the date of receipt of the SCN and the case was scheduled for hearing before the undersigned on September 18, 2018. The Respondent filed written reply to the SCN vide letter of September 10, 2018. Hearing in the matter was adjourned and held on September 19, 2018.

5. The submissions made by the Respondent in response of the SCN and verbally during the course of hearing are summarized as under:

- (i) *There is CTR clause added in KYC/CDD/AML policy, in Customer Identification which requires that any cash accepted by the Respondent from customers in excess of Rs.25,000 in exceptional circumstances shall be immediately reported to the Exchange. While Ministry of Finance Govt. of Pakistan, vide its SRO 73 (1)/2015 dated January 215, defined the minimum amount of reporting Currency Transaction Reports (CTR) to Financial Monitoring Unit (FMU) under Section 7 of the AML Act 2010 (VII of 2010), as Two Million Rupees. As never such incident happened which was liable to be reporting, so PSPL didn't file any CTR reporting to the Commission or FMU. Also there is no platform available for NIL Filing of CTR to Financial Monitoring Unit (FMU), so PSPL is not a Non-Compliant to Section 7 of AML Act, 2010 require the STR be reported to FMU. The Respondent accepted during the*





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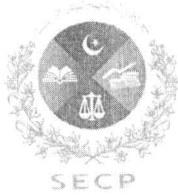
- hearing that this requirement needs to be covered in its KYC/CDD policy and shall accordingly rectify it.
- (ii) The Respondent accepted during the hearing that the requirement of filing STRs with the Commission, as inaccurately included in its policy, shall be revised in accordance with requirements of the law.
 - (iii) For common authorized person, the Respondent stated that three of the accounts have been closed and authorizations have been cancelled for two of the customers. Further, while confirmations of trades are being mailed to relevant Account Holders directly, there is no chance of any dispute with Account Holders as he is also the Nominee of mostly family members accounts.
 - (iv) Short profiling of customers was furnished by the Respondent. The Respondent has also obtained copies of Income Tax and Wealth Tax Returns for these customers. The Respondent agreed during the hearing that detailed customer profiling is required under the KYC/CDD Guidelines of PSX which it shall perform accordingly.
 - (v) With reference to maintenance of record under Circular 10 of 2017 issued by the Commission, the Respondent submitted that from April 2018 it is preparing details of AML framework as per 5 Million category for its director accounts.
 - (vi) In relation to customer namely Kamran, the Respondent submitted that he did not pursue his account since last 4 years even though the Respondent always approached him to get sign on on-going compliance formalities, whenever it were required. It is also responsibility of Client to provide the updated information at time to smooth on-going diligence. As he has Dormant account since last 4 years, now current status of his account as Closed, this negligence can be ignored. Updated information for the customer was furnished.

6. I have heard the arguments presented by Representative of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework and written response filed by the Respondent. The primary allegation against the Respondent is that it was in non-compliance with provisions of the relevant laws mentioned in para 3 above.

7. Before arriving at a decision, it is pertinent to mention that regulatory requirements relating to KYC/CDD and AML have been implemented since the year 2012 considering the public interest, integrity of the Pakistani capital market and the country's international commitments. Hence, all licensed persons are expected to ensure strict compliance with this regime by remaining vigilant and putting in place requisite policies and procedures to curtail activities relating to money laundering and financing of terrorism. The Commission has adopted a zero tolerance policy towards any gaps in this area and will not show any leniency for non-compliances in future.

8. Based on the above and the fact that the Respondent has accepted most of the non-compliances in its response and during the course of the hearing, most of which have been rectified, I have reasons to conclude that it is established that the Respondent was guilty of misconduct in terms of section 150(5) of the Securities Act, as the Respondent is non-compliant with provisions of relevant laws mentioned in para 3 above. The Respondent has argued that most non-compliances identified were unintentional and due to lack of comprehension of the relevant legal framework. However, ignorance of law is not an excuse as the regulatory





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framework has been in effect since the year 2012 and the Respondent could have sought guidance of PSX or the Commission.

9. In view of the foregoing, violations of the regulatory framework committed by the Respondent are established. However, it was observed based on the response and during the course of the hearing that the Respondent did not have complete understanding of the regulatory framework. While ignorance of law is not an excuse as the regulatory framework has been in effect since the year 2012, since the thematic review of the Respondent for AML, KYC and CDD has been carried out for the first time, I have decided to take a lenient view. Considering the same, no monetary penalty is being imposed, however, the Respondent is strictly warned to ensure compliance with the relevant legal framework.

10. Furthermore, the Commission will carry out a follow-up review within due course of time to assess whether the aforementioned violations have been rectified by the Respondent and in case of continued non-compliance, the Commission shall adopt a stringent course of action.

11. 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.




(Shaukat Hussain)
Commissioner

Announced on October 29, 2018
Islamabad.