

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

In the matter of Show Cause Notice issued to SAAO Capital Private Limited

Date of Hearing	September 04, 2020, September 24, 2020 and November 2, 2020
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Order-Redacted Version

Order dated November 30, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of SAAO Capital Private Limited. Relevant details are given as hereunder:

Nature	Details
• Date of Action	Show Cause notice dated July 17, 2020.
• Name of Company	SAAO Capital Private Limited.
• Name of Individual	The proceedings were initiated against the Company i.e. SAAO Capital Private Limited through its Chief Executive Officer.
• Nature of Offence	Proceedings under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997.
• Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have carefully examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondents. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <ul style="list-style-type: none">• For determination of ultimate beneficial owners of 8 mentioned clients, the Company submitted copies of KYC forms, retirement letter, tax returns, letters from employers, tenancy agreements, visiting cards or reference letters. However, following points are relevant to the aforesaid documents which were furnished in support of determination of beneficial ownership of mentioned clients:• All KYC forms were undated, which were submitted with the reply, in terms whereof ultimate beneficial owners were mentioned mainly the customers themselves.• Letter from employer of a client, wherein he was acting as chief executive, was of the date of 28-02-2020 i.e. subsequent to initiation of Beneficial ownership letter from a client.• In case of a client, his visiting card was submitted only, which was not sufficient for determination of beneficial ownership.• In case of a client, letter from employer dated July 1, 2017 was annexed. <p>The aforesaid highlight that in cases of the above mentioned 8 clients, though process of CDD was carried, however, the documents were obtained in three cases subsequent to initiation of inspection and KYC</p>

forms were undated. The Company, therefore, failed to substantiate its beneficial ownership details by verifying the same information. The copies of tax returns are not substantive evidence of determination of beneficial ownerships, however, are related to KYC of the clients. In case of a tax return of a client, submitted for the purpose of beneficial ownerships, the same revealed significant foreign investments. The Company, hence, needs to verify beneficial ownerships of such clients as per the requirements of Regulation 6(3) (a) of the Regulations.

- Out of 40 clients highlighted by inspection team for sources of funds, the Company through its letter dated February 19, 2020 requested CDC to block 15 of the aforesaid accounts. The Company is of the view that the said clients did not provide relevant details of sources of funds. However, the step to block the said 15 accounts was taken subsequent to initiation of inspection and can be termed as subsequent measure. For the remaining clients, the copies of documents submitted with the reply have been perused. Following points are relevant for documents submitted in support for determination of sources of income/sources of funds of such clients:
 - a. The documents were not provided along with LOF to the inspection team.
 - b. Copy of salary slip of foreign airline company is for the month of January 2020, which was obtained subsequent to initiation of inspection.
 - c. A copy of agreement dated nil, made by a client, with a television channel was provided. However, the said agreement was signed by the client only and was not signed by the other party to the contract. Hence, the said document was not substantive evidence of source of income/source of funds of such client.
 - d. In case of a client, his tax return having print out dated March 16, 2020 was provided, which was of date subsequent to initiation of inspection.
 - e. In cases of 6 clients, only visiting cards were provided, which are not substantive evidence for determination of sources of income/ sources of funds.
 - f. Cheque deposit slip of Rs. 4,000/- evidencing as salary deposit of the chief executive of the Company was provided along with letter from employer. However, the same was of dated May 7, 2020, and was of subsequent to initiation of inspection. Moreover, the amount mentioned was negligible and did not justify sources of funds/ sources of income.
 - g. For a corporate client, Form-29 and Form-A were for the year of 2015 and no subsequent documents were provided for determination of ultimate beneficial ownership of said corporate client. In case of another corporate client, Form-29

and Form-A were of October 28, 2019 i.e. subsequent to initiation of the inspection.

To sum up, the inspection team highlighted 40 cases on sample basis. However, for (15) blocked cases, (6) cases wherein job cards were available, in (2) cases salary slips were of dates subsequent to initiation of inspection, in case of corporate client, documents were obtained subsequent to initiation of inspection. Hence, I am constrained to note that subsequent compliance even does not exonerate the Company from non-compliance of the requirements of Regulation 6(3) (c) of the AML Regulations at the relevant time of inspection.

- For NADRA Verisys of 100 clients taken by the inspection team on sample basis, no evidence of compliance was furnished. Hence, despite lapse of almost two years of coming into effect of the AML Regulations, the Company had not taken steps for the purpose of compliance of the requirements given in terms of note (i) of Annexure-I of Regulation 6(4) of the AML Regulations, hence, violation stands established.
- In case of a corporate client, Form-A and Form-29 were dated October 28, 2019. Hence, the same were of dates subsequent to initiation of the inspection. In case of another corporate customer, Form-A and Form-29 were of the year 2015. It was informed that directors were themselves beneficial owners. However, the board resolutions of the aforesaid corporate customers mentioning authorized persons were not available. I have perused the tax return of a chief executive of a mentioned corporate customer, having significant foreign investments, hence, ultimate beneficial ownership of such customers need to be established through documentary evidence. The Company has however not provided any supporting documents in this regard. Moreover, the documents i.e. Form-A and Form-29 of the mentioned customers were not provided to the inspection team. I, am of the view that the Company has violated the Regulations 6(7) (a) and 7(1) (b) of the AML Regulations.
- Company is of the view that a mechanism was developed to rate the customers based on due diligence, and AML policy was referred for the purpose. It was also informed that power to rate the customers based on the due diligence was lying with the senior executives. "The Company's AML policy at page 16 highlighted that: "Obtaining the approval of senior management to commence or continue the business relationship." The Company, however, during the course of the aforesaid proceedings did not furnish any evidence in support for performance of EDD of its "high risk" customers and approvals of senior management were not placed for our record. Moreover, any supporting evidence that AML policy

	<p>containing EDD mechanism was shared with the inspection team was also not provided. 'The Company, having large customer base, was required to comply with the requirements of Regulation) and Regulation 9(3) of the AML Regulations, however, in absence of any supporting evidences, violation stands established.</p> <ul style="list-style-type: none">• With regards to observation of justification for "low risk" customers, the Company informed that: <i>"It is respectfully denied that the decision to rate the customer is not justified as we havestated above, the customers have been rated purely based on the outcome of the due diligence. We have made it in writing as well as in certain cases, which can be justified as and when the names of those respective customers are issued."</i> In support, however, the Company did not furnish documentary evidences of 12 customers highlighted by the inspection team, for decision to rate the said customers as "low risk". The Company, hence, violated Regulation 11(2) of the AML Regulations.• The chief executive did not substantiate his stance about forward and backward screening of clients, and maintenance of database of beneficial owners of customers enabling to perform screening of such beneficial owners. As per information shared by the inspection team, the Company did not perform forward and backward screening of its customers and also did not maintain database of beneficial owners of its customers enabling them to perform screening of such beneficial owners. As stated, the Company did not maintain a database of its customers' board of directors/trustee/office bearers, authorized signatories etc., in case of its corporate customers and Trust. Also, the absence of records/identification of the directors/trustees, shareholders, authorized signatories in the system indicated that the Company did not have mechanism and procedures to screen them through UNSCR/NACTA lists periodically in order to monitor their relationship with the entities. Moreover, AML policy approved by board in meeting held on November 10, 2018 was provided. However, the same policy did not highlight National Risk Assessment, 2019 updates. The AML policy containing such updates were not placed as submitted by the chief executive during the hearing proceedings. Hence, in absence of provision of any supporting evidences to the inspection team, or placed before me, I, am of the view that the Company violated the requirements of Regulation 4(a) and Regulation 13(7) of the AML Regulations.• I have perused the job description submitted related to compliance officer of the Company. I have noticed that the said job description does not expressly provide for timely submission of accurate data/returns as required under law, monitoring and timely reporting of Suspicious Transaction Reports and Cash Transaction Reports to Financial Monitoring Unit. The Company in its reply dated October 9, 2020 furnished in this regard: "Being stock
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	<p>brokers, you are aware that we have to comply with several rules and regulations. Hence, compliance function, in one pager description, cannot be covered." In view of given response, and the copy of job description provided to me, I, am of the view that the job description of the compliance officer was not found exhaustive as the aforementioned responsibilities were not specifically made part of the job of compliance officer, in contravention of the requirements of Regulation 18(c) of the AML Regulations.</p> <ul style="list-style-type: none"> • • In view of the foregoing facts, I am of the considered view that flagrant and multiple violations of the provisions of Regulations of the AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of <u>Rs. 475,000/- (Rupees Four Hundred Seventy Five Thousand only)</u> is hereby imposed on the Respondent Company. The Respondent is advised to examine its AML/CFT policy & procedures to ensure that the requirements contained in the AML Regulations are met in letter and spirit. <p>Penalty Order dated November 30, 2020 was passed by Executive Director (Adjudication-I).</p>
<ul style="list-style-type: none"> • Penalty Imposed 	<p>Penalty of 475,000/- (<u>Rupees Four Hundred Seventy Five Thousand only</u>) was imposed.</p>
<ul style="list-style-type: none"> • Current Status of Order 	<p>Appeal was filed against the Order.</p>

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