



Securities and Exchange Commission of Pakistan

Adjudication Division
Adjudication Department-I

Before Shauzab Ali, Commissioner (SMD)

In the matter of Show Cause Notice issued to Royal Securities (Pvt.) Limited

Dates of Hearing

January 05, 2021

Order-Redacted Version

Order dated January 22, 2021 was passed by Commissioner (SMD) in the matter of Royal Securities (Pvt.) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated May 15, 2020
2. Name of Company	Royal Securities (Pvt.) Limited
3. Name of Individual*	The proceedings were initiated against the Company i.e. Royal Securities (Pvt.) Limited
4. Nature of Offence	In view of alleged violations of the Securities Brokers (Licensing & Operations) Regulations, 2016 ("the Securities Brokers Regulations") and Regulation 6(2), 6(3)(a), (b), (c), 6(5), 6(8) and 6(10) of the AML Regulations, 2018.
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have examined the submissions made in writing and during the hearing as well as issues highlighted in the SCN and requirements of the AML Regulations. The observation of the undersigned and findings against each submission made by the Respondents are summarized as under:</p> <p>i. With regard to the allegation of illegal deposit taking and borrowing of funds in contravention of provisions of the Securities Brokers Regulations, the Respondent during the hearing submitted that RTA and ART are personal business accounts of Mr. Rizwan (Director/ Shareholder). The Respondent during the hearing also admitted that funds were routed through these accounts for NCCPL clearing</p>



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purposes. The Respondent also submitted that any shortfall in the house accounts was accommodated through RTA accounts. The Respondent also stated that these accounts were mistakenly mentioned in their back-office system as RTA & ART (names of sole proprietary concerns) instead of Mr. Rizwan (Director/ Shareholder). The Respondent during the hearing submitted that these funds were not taken as loans and were returned free of cost. In light of the submissions made by the Respondent, it is established the money was accepted in contravention of Regulation 16(2) (ka) of the Securities Brokers Regulations which were promulgated in June, 2016 and clearly prohibits acceptance of any money or deposit or borrowing by whatsoever name from any person including an individual or any segment of public or directors or sponsors of a securities brokers except in the manner prescribed in the Regulations. The arguments put forth by the Respondent in its reply and during the hearing are not found satisfactory.

- ii. With regard to the amount received from MHM, it was submitted during the hearing that no UIN was created against MHM as MHM was not a client of Respondent and MHM paid that amount to Mr. Rizwan (Director/ Shareholder) in 2016 for acquiring shareholding in the Respondent. The Respondent admitted that the amount was taken as loan with an intent to convert it into equity stake in the Respondent. The said money was later returned to MHM on account of internal conflict between shareholders. The arguments put forth by the Respondent in response to the borrowing of funds from MHM to convert it into equity, does not hold merit. The documentary evidence on record indicates that the amount was received by the Respondent as a loan from MHM vide agreement dated November 10, 2016 and was settled in July, 2019 by issuing a cheque of Rs. 40 million to the MHM from the bank account of the Respondent.
- iii. With regard to the complaint, the Respondent denied any association with Mr. Shahzaib as a client or otherwise. No UIN was opened against the individual. The Respondent submitted that he was a personal friend of Mr. Atif Shabbir (ex-shareholder of the company) and had no relationship with the business. The inspection team



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reported that the complainant had provided copy of receipt dated September 30, 2018 on the letterhead of the Respondent confirming his investment of Rs. 3 million for investment/ purchase of shares through the Respondent and the said receipt was signed by Mr. Atif Shabbir as director/shareholder of the Respondent. Respondent could not provide satisfactory response to the allegation raised in the SCN.

The written and verbal submissions of the Respondent could not satisfy the merits of acceptance of money as permitted under the regulatory framework. Further, it was observed that the Respondent had not opened any UIN accounts against ART, RTA, MHM and Mr. Shahzaib Mughal however, the instances on record indicates acceptance of money from such individuals without having customer relationship. In view of the aforesaid, it has been observed that the Respondent through its shareholders/ directors was involved in deposit taking activity in contravention of the requirements of Regulation 16(2)(ka) of the Regulations.

- iv. With regard to the allegations in respect of maintenance of books of accounts and misstatement of assets and liabilities, the Respondent during the hearing submitted that the amounts received from Mr. Rizwan (Director/ Shareholder) was unintentionally recorded in the ledger accounts of RTA and ART due to negligence of its accounts department. The inspection revealed that a loan agreement was signed between MI-IM and Sponsor/Director- II on November 10, 2016, whereby MHM provided a loan of IRS. 40 million to the Respondent, however, the same was recorded in the ledger of RTA account. The amount was reflected as other liabilities in half yearly accounts on December 31, 2016 and NCB as on December 31, 2016. The Respondent on March 15, 2017 paid 40 million to RTA through a cheque and settled its liabilities. The Respondent books of accounts did not reflect loan of MYIM. The final settlement of MHM's loan was made on July 16, 2019 by the Respondent by crediting RTA account. Therefore, the Respondent's books of accounts/ financial statements were misstated after December 2016 till June, 2019. The Respondent also admitted that it was a misunderstanding on its part. The admission of the Respondent and material available on record indicates that the Respondent had failed to appropriately maintain its



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books with regard to the funds accepted from individuals.

In view of the aforesaid, the Respondent has contravened the provision of 79(1) and 86(b) of the Securities Act, 2015 (Securities Act) which requires a regulated person to keep such accounting and other records which shall present a true and fair picture of the financial position of the company. Further, the Respondent has also contravened the provisions of Regulation 33(1) and 33(5) of the Securities Brokers Regulations which requires that a securities broker shall keep accounting and other records which shall sufficiently explain its business and transactions entered into (whether effected on its own behalf or on behalf of customers) and the financial position of the securities broker should disclose accuracy at that time in compliance with the law. The Securities broker is also required to maintain books of accounts and other documents to disclose a true, accurate and up to date positions of the business including but not limited to record of all assets and liabilities of the securities broker including any commitments or contingent liabilities.

- v. With regard to the contravention of AML Regulations, the Respondent submitted that no UIN were opened against the amounts received from MHM, RTA, ART and Mr. Shahzaib. However, the record available indicates that Respondent extended its services for layering and routing of funds from individuals to RTA and ART without any acceptable justification. Further, MHM and Mr. Shahzaib provided the funds in the name of the Respondent and same were accepted by it and routed in other accounts, therefore, the existence of relationship between the two parties cannot be denied. The applicable regulatory framework do not permit or envisage indulging of regulated person an activity not within the scope of regulated activity.

The spirit of AML regulatory framework requires from regulated person to take a risk-based approach and to put measures in place to identify their clients and monitor how they use their services to stop criminals using professional services to launder money.

Furthermore, it to be noted that in terms of AML Regulations, MHM, RTA, ART and Mr. Shahzaib were not "customers" of Respondent and the transaction between them cannot be termed within the scope of "business relations" as per Section 2(ia)



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and 2(f) of AML Regulation reproduced hereunder:

"customer" means any natural person, legal person or legal arrangement to whom financial services has been extended by a regulated person;

"business relations" means provision of any financial service by the regulated person under the administered legislation;

Therefore, in light of above the identified transactions are not within the scope of AML Regulation. Therefore, violation of Regulation 6(2), 6(3)(a), (b), (c), 6(5), 6(8) and 6(10) of the AML Regulations cannot be attributed towards the Respondent.

In view of the foregoing and admission made by the Representative, contraventions of the provisions of Securities Act, the Securities Brokers Regulations have been established against the Respondent. Therefore, in terms Of powers conferred under section 150(2) of the Securities Act, a penalty of Rs. 10,000,000 (Rupees Ten Million Only) is hereby imposed on the Respondent on contravention of Section 79(1) and 84(b) of the Securities Act and Regulation 16(2)(ka) and Regulation 33(1) and 33(5) of Securities Brokers Regulations. Furthermore, I, in terms of powers conferred under section 150(1) hereby also suspend the license of the Respondent in relation to all regulated securities activities under is license as a Securities Brokers with immediate effect.

Furthermore, the Respondent is hereby directed to inform all its existing customers regarding suspension of its license, settle all dues of the customers within fifteen days and remain responsible for clearing and settlement of all his obligations till date.

Furthermore, relevant department of the Commission is advised to undertake comprehensive investigation into the affairs of Respondent in respect of all activities being performed by the Respondent, to ascertain its compliance with the all applicable regulatory framework including but not limited to provisions of AML Regulations, Securities Act and rules & regulations made thereunder. The relevant department of the Commission is further advised to conclude the said investigation within 90 days of the date of this order and thereafter decision of suspension of license maybe be accordingly be revisited by the Commission.



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	Penalty order dated January 22, 2021 was passed by Commissioner (SMD).
6. Penalty Imposed	A Penalty of Rs. 10,000,000/- (Rupees Ten Million Only) was imposed on the respondent company to ensure compliance of law in future.
7. Current Status of Order	Appeal has been filed by the respondent company