



## PAKISTAN STOCK EXCHANGE LIMITED

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Ref. No. PSX/     RAD/O-2871    

June 8, 2023

### **The Board of Directors**

M/s. Alfalah CLSA Securities (Private) Limited

4th Floor, Block – 1, Shafi Court,

Plot # CL 5/6-1, Civil Lines,

**Karachi.**

### **SUBJECT: DECISION IN THE MATTER OF NON-COMPLIANCES IDENTIFIED DURING VERIFICATION OF CLIENTS' FUNDS SEGREGATION**

Dear Sirs,

This is with reference to subject matter.

Please find enclosed herewith the Order dated June 8, 2023 in the matter of non-compliance identified during verification of clients' funds segregation.

The above is for your information and necessary compliance.

Yours truly,

**ATIF ISLAM SIDDIQUI**

Senior Manager

Regulatory Affairs Division

### **Cc:**

1. Chief Executive Officer – Alfalah CLSA Securities (Pvt.) Limited
2. HOD/Director – Supervision Division – (Onsite Department), SECP
3. Additional Director – Supervision Division – (Offsite I Department), SECP
4. Company Secretary – Alfalah CLSA Securities (Pvt.) Limited (Ensuring to circulate enclosed Order to the Board of Directors)

**Encl:** As Above



DECISION IN THE MATTER OF NON-COMPLIANCE IDENTIFIED  
DURING VERIFICATION OF CLIENTS' FUNDS SEGREGATION OF  
ALFALAH CLSA SECURITIES (PVT.) LIMITED

**Hearing before:** Mr. Ajeet Kumar | Chief Regulatory Officer  
**Representing ALFALAH:** Mr. Imtiaz Ahmed | COO & Company Secretary  
Mr. Minhas Ahmed | Head of Finance  
**Assisting CRO-PSX:** Mr. Atif Islam Siddiqui | Senior Manager, RAD-PSX  
M. Junaid Qayyoom | Manager, RAD-PSX  
**Date of hearing:** March 27, 2023

**ORDER**

**1. BACKGROUND:**

1.1 Pakistan Stock Exchange [PSX] conducted an off-site review under PSX Regulation 23.9 to check the compliance status of Alfalah CLSA Securities (Pvt.) Limited [Alfalah Securities] with PSX Regulation 4.17.1(a) in relation to "Segregation of Clients' Funds". The review of Alfalah Securities was initiated on January 24, 2023, to verify the segregation of clients' funds on following six random dates [referred to as "Review Dates"]:

- October 03, 2022
- October 12, 2022
- November 01, 2022
- November 28, 2022
- December 20, 2022
- December 21, 2022

1.2 During the verification, the Inspection Team observed a shortfall in clients' funds against the clients' trade payables on all the review dates. The details of the same are tabulated below:

Description	Ref.	3-Oct-22	12-Oct-22	1-Nov-22	28-Nov-22	20-Dec-22	21-Dec-22
PKR in Million							
<b>Trade Payables</b>	<b>A</b>	<b>334.22</b>	<b>487.37</b>	<b>474.46</b>	<b>467.81</b>	<b>362.80</b>	<b>375.18</b>
Client Titled Bank A/c. Balance	B	6.64	10.34	9.96	2.09	5.89	8.53
Margins Deposited in NCCPL	C	79.01	75.51	16.01	133.26	9.36	8.36
T+2 NCCPL Sale & Purchase (Net)	D	(2.69)	(3.27)	(13.97)	79.78	(8.99)	16.57
<b>Total Clients' Funds (B+C+D)</b>	<b>E</b>	<b>82.96</b>	<b>82.58</b>	<b>12.01</b>	<b>215.12</b>	<b>6.27</b>	<b>33.47</b>
<b>(Shortfall) (E-A)</b>	<b>-</b>	<b>(251.26)</b>	<b>(404.79)</b>	<b>(462.45)</b>	<b>(252.69)</b>	<b>(356.54)</b>	<b>(341.71)</b>

1.3 In back office clients' trial balance, a column having the title "adjusted exposure" was noted wherein the credit balances of many of the customers were being reduced/ netted-off by the amount of exposure adjusted. PSX sought clarification regarding such column, however, Alfalah Securities did not provide any details in this regard at that time. Therefore, the inspection team did not account for those balances in the above calculation.



- 1.4 Further, the inspection team in the aforementioned calculation considered the client-titled bank account balances on the basis of "lower of bank ledger or bank statement" due to the reason that Alfalah Securities had not provided supporting evidence pertaining to the bank reconciliation statements of the review dates.
- 1.5 PSX vide email dated March 17, 2023 sought explanation regarding the observed shortfall in clients' funds. In response, Alfalah Securities vide email dated March 22, 2023 submitted revised calculations without any comments and/or documentary evidences. Since the provided information was not satisfactory and lacked justification of shortfall in clients' funds, PSX vide letter dated March 22, 2023 issued a show cause and hearing notice to Alfalah Securities and provided an opportunity of being heard on March 27, 2023.

## 2. DURING THE HEARING:

- 2.1 During the hearing on March 27, 2023, Alfalah Securities clarified that the column relating to "adjusted exposure" was showing the margin amount deposited with NCCPL on behalf of the relevant clients. The inspection team responded that the margins amounts deposited with NCCPL have already been accounted for in calculation of shortfall in clients' funds.
- 2.2 With respect to non-provision of supporting documents pertaining to bank reconciliation statements, Alfalah Securities provided requisite supporting evidences and affirmed that after incorporating the impact of bank reconciling items, the shortfall in clients' funds will be eliminated.

## 3. SUBSEQUENT TO THE HEARING:

- 3.1 Since the supporting evidences provided by Alfalah Securities during the hearing were incomplete, PSX vide email dated March 27, 2023 advised it to provide all remaining supporting evidences pertaining to the bank reconciliations statements by March 30, 2023. Alfalah Securities shared the requisite supporting evidences vide emails dated April 03, 2023, and April 04, 2023.

## 4. ASSESSMENT OF SUPPORTING EVIDENCES:

- 4.1 As per the provided Back Office records and ledgers, the Alfalah Securities had a total nine (9) client-titled bank accounts. Out of nine, more than 90% of clients' funds were maintained in Bank Al Habib Limited – Client Account [Client Account] (A/c. No. 1012-0081-006619-01-3). Therefore, the inspection team reviewed the bank statement, ledger, and evidence relating to the bank reconciliation items pertaining to the Client Account. During the review, the team has noted the following major discrepancies in the bank reconciliation statements:

- A. As per the Client Account back office ledger, it was noted on each of the review dates that the Alfalah Securities had been transferring significant funds from Bank Al Habib Limited – Running Finance Account [RF Account] to Client Account and reversing even higher amounts back from Client Account to RF Account. The summary of movement of such fund is tabulated below:

Description	3-Oct-22	12-Oct-22	1-Nov-22	28-Nov-22	20-Dec-22	21-Dec-22
	PKR in Million					
Funds Transferred	85.59	350.44	209.59	379.09	309.25	304.73





Description	3-Oct-22	12-Oct-22	1-Nov-22	28-Nov-22	20-Dec-22	21-Dec-22
	PKR in Million					
from RF Account to Client Account <b>"Deposit in Transit"</b>						
Funds Transferred from Client Account to RF Account <b>"Outstanding Payments"</b>	157.31	359.21	191.12	396.20	378.50	319.25

Since the transactions pertaining to the aforementioned fund transfers were appearing in the bank statement on subsequent dates, both types of transactions i.e. transfer-in and transfer-out of funds should have been accounted for as reconciling items as "Deposit in Transit" and "Outstanding Payments" on the review dates. However, Alfalah Securities had recorded amounts pertaining only to the "Deposit in Transit" in bank reconciliation statement. This treatment of reconciling items was misleading and did not show complete picture of the actual movement of funds from the accounts as no "Outstanding Payments" in the bank reconciliation statements were being recorded.

- B. It was noted in the bank reconciliation statement that the funds to the tune of PKR 150 million and PKR 200 million were debited by bank from the Client Account on two review dates i.e. October 03, 2022 and November 1, 2022 respectively. While reviewing the bank statements, it was observed that Alfalah Securities had issued cheques to transfer funds from proprietary bank accounts to Client Account on September 30, 2022 and October 31, 2022, which were returned on next date apparently due to insufficient funds in proprietary bank accounts. The detail of the transactions and available balance in proprietary bank account are presented below:

Sr. No.	Funds PKR in Million	Funds Transferring From:	Transfer Date	Cheque Return Date	Balance Available on Transfer Date
1	150	MCB Bank Limited	Sep 30, 2022	Oct 1, 2022	10,000
2	100	Meezan Bank Limited	Oct 31, 2022	Nov 1, 2022	2,806,653
	100	Faysal Bank Limited	Oct 31, 2022	Nov 1, 2022	2,004,481

Alfalah Securities had recorded inflows of funds in Client Account ledger on the date of issuance of cheques. Since those cheques were returned, the Client Account ledger was not updated, which results into overstatement of Client Account ledger as compare to the Client Bank Account.

- 4.2 Based on the above, the Bank ledger balance of client account on the selected dates will stand as below:

Description	3-Oct-22	12-Oct-22	1-Nov-22	28-Nov-22	20-Dec-22	21-Dec-22
	PKR in Million					
Client Bank A/c. Ledger Balance as per Alfalah	237.02	350.70	400.33	379.28	311.88	310.36
<b>Client Bank A/c. Ledger Balance as per Verification by PSX</b>	<b>(70.18)</b>	<b>(8.51)</b>	<b>9.20</b>	<b>(16.92)</b>	<b>(68.85)</b>	<b>(13.11)</b>



- 4.3 In addition to the above, a practice was found during the review period from October 01, 2022 to December 31, 2022, whereby Alfalah Securities used to transfer significant funds from **RF Account to Client Account** and move out funds from Client Account to RF Account on daily basis. On average, Alfalah Securities was maintaining an amount of **PKR 1.37 Million** in Client Account each day during the review period as against the average amount of **PKR 349 Million** being shown in the back-office ledger. It is pertinent to highlight that Alfalah Securities used to maintain sufficient funds in the Client Bank Account on each fortnight in order to show adequate availability of funds in clients' bank account in the Clients Assets Segregation Statement filed with PSX on fortnightly basis.
- 4.4 In view of foregoing, PSX vide email dated May 03, 2023 sought comments/ explanation from Alfalah Securities on the highlighted observations along with the supporting evidences by May 08, 2023. However, Alfalah Securities did not provide comments or justification relating to the highlighted observations.

## 5. ASSESSMENT OF COMPLIANCE WITH PSX'S EARLIER ORDER:

- 5.1 PSX had issued an Order dated October 12, 2022 against Alfalah Securities on non-segregation of clients' funds wherein, PSX had advised it to discontinue its practice of adjusting shortfall in clients' funds with the bank guarantee submitted with NCCPL against clients' margin as Bank guarantee is a non-cash item.
- 5.2 In order to check compliance with aforementioned direction, PSX compared cash margins deposited with NCCPL with the margins reported by Alfalah Securities in its fortnightly clients' assets segregation statements on sample basis and noted the following differences:

Sr. No.	Statement Date	Margins Reported in CASS	Cash Margins Deposited with NCCPL	Difference
		A	B	(A-B)
1	15-Nov-22	83,289,851	58,665,213	24,624,638
2	31-Jan-23	44,703,832	12,965,213	31,738,619
3	28-Apr-23	43,096,562	12,684,896	30,411,666

- 5.3 The abovementioned differences in margins make it evident that Alfalah Securities did not comply with direction of PSX and continued its practice of including bank guarantee in clients' assets segregation statements filled with PSX on fortnightly basis.

## 6. FINAL ASSESSMENT OF PSX:

- 6.1 Since major Bank reconciliation items pertains to the internal banks funds transfer, PSX assessed shortfall of funds by comparing clients' trade payables with the funds available in all client titled bank accounts and proprietary bank accounts on the reviewed dates and noted following aggregate shortfall in clients' funds:

Description	Ref.	3-Oct-22	12-Oct-22	1-Nov-22	28-Nov-22	20-Dec-22	21-Dec-22
		PKR in Million					
Trade Payables	A	360.72	487.37	474.46	467.81	362.80	375.18
Client Funds As per all Bank Statements	B	13.01	23.92	12.56	6.97	12.05	17.63
Proprietary Fund as per Bank Statements	C	16.88	20.98	16.25	16.23	14.72	12.50
Margins	D	109.96	108.24	45.85	162.35	49.18	63.24





Description	Ref.	3-Oct-22	12-Oct-22	1-Nov-22	28-Nov-22	20-Dec-22	21-Dec-22
		PKR in Million					
Deposited with NCCPL							
Receivables from NCCPL	E	38.95	36.45	37.38	36.55	36.45	36.45
<b>Total Sum (B+C+D+E)</b>	<b>F</b>	<b>178.80</b>	<b>189.59</b>	<b>112.04</b>	<b>222.10</b>	<b>112.40</b>	<b>129.82</b>
<b>Net Shortfall (F-A)</b>	-	<b>(181.91)</b>	<b>(297.78)</b>	<b>(362.43)</b>	<b>(245.71)</b>	<b>(250.40)</b>	<b>(245.36)</b>

6.2 PSX shared the abovementioned final assessment with Alfalah Securities via email dated May 24, 2023 and sought comments by May 26, 2023. In this regard, Alfalah Securities requested to schedule a meeting to discuss the findings in detail. Accordingly, PSX scheduled meeting on May 26, 2023 and communicated two review dates i.e. November 28, 2022 and December 20, 2022 for the purpose of discussion.

## 7. DURING THE MEETING:

7.1 The meeting was attended by Chief Executive Officer [CEO] and Chief Operating Officer [COO] of Alfalah Securities with CRO-PSX and his inspection team. During the meeting, following matters relating to the highlighted observations were deliberated:

- The COO informed that Alfalah Securities has a proprietary Bank account in Bank Al Habib Limited (A/c. No. 1012-0118-003633-01-9) [Proprietary Account] wherein **PKR 337 million** funds were available during the review period, on average. PSX informed that Alfalah Securities had neither provided Bank statement of said account nor such account was appearing in the back office trial balance. COO informed that since the Proprietary Account and RF Account were maintained in same Bank, Alfalah Securities has maintained single bank account ledger in back office records i.e. BANK AL HABIB LTD - (R/F ACCOUNT) (KSE BRANCH) wherein transactions of both bank accounts are recorded. PSX advised Alfalah Securities to record both bank accounts in the back office records separately to present complete view of financial records.
- The COO informed that Alfalah Securities received funds of PKR 379.09 million and PKR 309.25 million in Client Account on November 28, 2022 and December 20, 2022 respectively which were credited by the Bank on subsequent dates. Therefore, these transactions will be treated as “**deposit in transit**” on review dates and will be added in the bank statement balance for purpose for assessing shortfall in clients' funds.

The inspection team responded that, on the same review dates, Alfalah Securities has also made payments from Client Account to RF Account of PKR 396.20 million and PKR 378.50 million respectively which were appearing in the Bank statement on subsequent dates. These transactions will be treated as “**outstanding payments**” for reconciliation purpose which will net-off the impact of “**deposit in transit**”. The COO replied that they understood the highlighted issue and started to maintain sufficient funds in client titled Bank account. Alfalah Securities also shared a copy of Client Bank Account statement as on May 25, 2023, showing funds amounting to PKR 294 million.

*(This observation is mentioned in detail in Point Number 4 of this Order.)*

On enquiry, the COO further clarified that they have transferred funds from RF Account to Client Account to maintain sufficient funds in Client Account and RF Account will be managed through their receivables from clients which stands to PKR 1.890



billion as at December 21, 2022. The CRO replied that movement of clients' funds from Client Account to RF Account is against the spirit of the fiduciary obligation of brokers to maintain proper segregation of clients funds. He further emphasized that the client titled bank accounts should reflect sufficient cash balances at all times against the clients' trades payable and no amount should be moved from client bank account for any purpose other than as authorized under the relevant laws.

- With respect to the inclusion of Bank guarantee in fortnightly client assets segregation, Alfalah Securities informed that since bank guarantee is eligible to be placed as margin on behalf of the clients, Alfalah Securities is taking the impact of bank guarantee while preparing the fortnightly clients assets segregation statement. PSX emphasized that the bank guarantee is a non-cash item and cannot be used as an alternate to clients' funds while maintaining segregation. In this regard, the attention of Alfalah Securities was also drawn to the PSX's Order dated October 12, 2022 wherein Alfalah Securities was directed to refrain from its practice of using bank guarantee for segregation purpose.

## 8. DECISION:

8.1 Having considered all relevant facts and aspects and in light of the above proceedings, it has been established that Alfalah Securities has failed to ensure proper segregation of clients' funds and comply with the PSX Order dated October 12, 2022. In view of the foregoing, Alfalah Securities is hereby directed to comply with the following:

- (a) Pay a fine of **PKR 2,000,000/-** (Rupees Two Million Only) within 14 days from the date of this Order in accordance with clause 20.8.2 of PSX Regulations.
- (b) Maintain sufficient funds in client titled bank account(s) at all times in order to comply with the fiduciary obligation to maintain segregation of clients' assets.
- (c) Immediately discontinue its practice of including bank guarantee, submitted with NCCPL against exposure margin, in the clients' assets segregation statement as a reconciling item against the difference between clients' trade payables and clients' funds.
- (d) Submit Clients Assets Segregation Statement as of next fortnight together with all relevant documentary evidences substantiating compliances with above directions.
- (e) Remain vigilant in future and ensure compliance with all applicable regulations at all times in letter and spirit.

This Order shall dispose-off aforementioned highlighted matters relating to PSX Regulations and is issued without prejudice to the right of PSX to further initiate any enquiry, special audit with expanded, restricted or different scope or to take any punitive action against the securities broker in accordance with the relevant regulations on matters subsequently investigated or otherwise brought to the knowledge of PSX.

**AJEET KUMAR**  
CHIEF REGULATORY OFFICER

Date: June 8, 2023



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
Adjudication Division  
Adjudication Department-1


No. 1(157) SMD/ADJ-1/KHI/ 2019

December 24, 2019

**Alfalah CLSA Securities (Pvt.) Limited**  
8<sup>th</sup> Floor, Bahria Complex III, M.T Khan Road,  
**Karachi.**

**SUBJECT: Order in respect of Show Cause Notice No. 1(157) SMD/ADJ-1/KHI/ 2019, dated December 13, 2019**

Please find enclosed herewith a copy of Order dated December 24, 2019 in the title matter for your record and necessary action.

  
\_\_\_\_\_  
**Muhammad Faisal**  
Management Executive (Adjudication Department-1)





Securities and Exchange Commission of Pakistan  
Adjudication Division  
Adjudication Department I

Through Courier

Before the Executive Director

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

Date of Hearing	December 20, 2019
Present at the Hearing	i. Mr. Atif Mohammed Khan (Chief Executive Officer)
Representing Alfalah CLSA Securities (Pvt.) Ltd.	ii. Mr. Muhammad Aslam Memon (Senior Manager Risk & Compliance Officer)

**ORDER**

This Order shall dispose of the proceedings initiated against the Alfalah CLSA Securities (Pvt.) Limited (the “Respondent”) through Show Cause Notice No. 2(157) SMD/ADJ-1/KHI/2019, dated December 13, 2019 (the “SCN”) under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the “Act”).

2. Brief facts of the case are as follows:
  - (a) The Respondent is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (the “PSX”) and licensed as a securities broker under the Securities Act, 2015.
  - (b) The inspection (the “Inspection”) of the Respondent was conducted by the Commission to ascertain compliance with requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the “AML Regulations”).
3. The Inspection revealed non-compliances with the AML Regulations; detailed as under:
  - i. Regulation 4(a) of the AML Regulations requires a securities broker to develop and implement policies, procedures and controls, which are approved by its board of directors, to enable the securities broker to effectively manage and mitigate the risks that are identified in the risk assessment of ML/TF or notified by the Commission. Furthermore, Regulation 13(7) stipulates that securities broker should monitor their relationships with the entities and individuals mentioned in sub-regulation (5a) of regulation 6, on a continuous basis and ensure that no such relationship exists directly or indirectly, through ultimate control of an account and where any such relationship is found, the regulated person shall take immediate action as per law, including freezing the funds and assets of such proscribed entity/individual and reporting to the Commission. It was revealed that screening of joint account holder/nominee/authorized person/BOD/Trustees, was conducted by the Respondent from the list of proscribed persons under Anti Terrorism Act, 1997, however, the same was not performed from list of person





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- designated by United Nation Security Council Resolutions adopted by Government of Pakistan, at the time of establishment of relationship and continuing relationship with the customers, in violation of Regulation 4(a) and 13 (7) of AML Regulations.
- ii. Regulation 9(4)(a) of the AML Regulations requires a securities broker to take the Enhanced Due Diligence (EDD) measures and if any customer presents high risk then obtain approval from senior management of regulated person to establish or continue business relations with such customers. During inspection, Respondent failed to provide evidence of specific approval of senior management in case of establishing or continuing relationship with 7 high risk customers, in violations of Regulation 9(4)(a) of the AML Regulations.
- iii. Regulation 11(2) of the AML Regulations requires that the decision to rate a customer as low risk shall be justified in writing. It was revealed that the Respondent failed to provide evidence of recording justification for categorizing seven customers as low risk, in violation of Regulation 11(2) of the AML Regulations.
- iv. Regulation 6(4) of the AML Regulations requires a securities broker to obtain such documents from different types of customers as provided in Annexure-I. It was revealed in inspection that the Respondent did not validate the identity documents of its eighteen customers through NADRA Verysis, in violation of Regulation 6(4) of AML Regulations.
- v. Regulation 6(3) of the AML Regulations requires a securities broker to perform Customer Due Diligence (CDD) by identifying the customer or beneficial owner and verifying the customer's/beneficial owner's identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources. Inspection revealed that in 4 instances Respondent did not perform CDD, in violation of the Regulation 6(3) of the AML Regulations.
- vi. Regulation 9(4)(b) of the AML Regulations requires a securities broker to take the Enhanced Due Diligence (EDD) measures and establish, by appropriate means, the sources of wealth and/or funds or beneficial ownership of funds, as appropriate; including regulated person's own assessment to this effect. Inspection revealed that in 4 instances Respondent did not perform EDD of its customers, in violation of the Regulation 9(4)(b) of the AML Regulations.
- vii. Regulation 13 (1) of the AML Regulations states that all business relations with customers shall be monitored on an ongoing basis to ensure that the transactions are consistent with the regulated person's knowledge of the customer, its business and risk profile and where appropriate, the sources of funds. It was revealed that in 2 instances Respondent has no evidence regarding ongoing monitoring in customers file, in violation of the Regulation 13(1) of the AML Regulations.
- viii. Regulation 13(3) of the AML Regulations states that regulated person shall periodically review the adequacy of customer information obtained in respect of customers and beneficial owners and ensure that the information is kept up to date and relevant, by undertaking reviews of the existing records, particularly for higher risk categories of customers and the review period and procedures thereof should be defined by regulated person in their AML/CFT policies, as per risk-based approach. It was revealed that in 3 instances Respondent did not periodically review in light of the said Regulation, in violation of the Regulation 13(3) of the AML Regulations.







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4. It appeared from the preceding that the Respondent *prima facie* acted in contravention of the AML Regulations. Accordingly, the Commission took cognizance of the aforementioned facts and served the SCN requiring the Respondent and its Chief Executive to explain their stance in person on December 20, 2019. The Respondent submitted its reply vide its letter December 18, 2019, which is reproduced below:

*"----- we have already provided all the relevant replies through our letter dated November 18, 2019 in response to SECP's letter of finding dated November 17, 2019 which we believe addresses all the points raised and we will further explain this to you at the hearing....."*

5. The Respondents were accorded an opportunity of personal hearing dated December 20, 2019. The hearing was attended by Mr. Atif Mohammed Khan, Chief Executive Officer of the Respondent and Mr. Muhammad Aslam Memon, Senior Manager Risk & Compliance Officer as "Authorized Representatives". During the hearing proceedings, the Authorized Representatives submitted their response to the SCN. Further, the authorized Representatives accepted the said violations and informed that now they are complying with the Regulations.

6. I have examined the submissions of the Respondents and its Authorized Representatives. In this regard, I observe that:

- i. With regard to the violation of Regulations 4(a) and 13(7), the Respondent has failed to furnish any evidence of screening of joint account holder/nominee/authorized person/BOD/Trustees, in respect of its customers from the list of persons designated by United Nation Security Council Resolutions adopted by Government of Pakistan, at the time of establishment of relationship and continuing relationship with its customers.
- ii. With regard to the violation of Regulation 9(4)(a), the Respondent has failed to furnish any evidence that specific approvals of the Respondent's senior management were obtained against seven highlighted instances of high risk customers. Furthermore, in response to the letter of finding, the Respondent vide its letter dated November 19, 2019 submitted that before establishing relationship with any client, Know Your Customer (KYC) forms attached with account opening forms were duly signed by the senior manager (who was also the Compliance Officer of the Respondent) which also serves as requisite approval under Regulation 9(4)(a). The response is not tenable on the following grounds:
  - a. Respondent could not exhibit existence of a policy duly approved by its board that specific approvals of the Respondent's senior management as required under Regulation 9(4)(a) will be carried out along signing of KYC form.
  - b. KYC form is required to be filled for every customer, However, the senior management approval under Regulation 9(4)(a) is only required for customer who presents high risk of ML/TF.
  - c. The senior management approval under Regulation 9(4)(a) is not only required to establish business relations with high risk customers but also to continue business with such customer. Therefore, the requirement is of ongoing nature and cannot be a onetime exercise at the time of submission of account opening form by the customer.





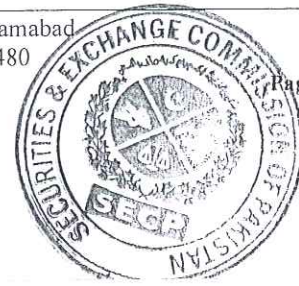


# Securities and Exchange Commission of Pakistan

## Adjudication Division

### Adjudication Department 1

- d. The activities of operational nature such as dealing with customers and filling KYC forms cannot be entrusted to compliance officer as involvement in operations compromises the independence of compliance function. In terms of Regulation 16(9)(e) of Securities Broker (Licensing and Operations ) Regulations 2016, a securities broker is required to put in place effective and operationally independent internal audit and compliance functions having appropriately trained and competent staff. Therefore, in view of statutory requirement of Securities Broker (Licensing and Operations) Regulations 2016 referred above, Compliance Officer cannot be included in senior management for the purpose of Regulation 9(4)(a).
- iii. With regard to the violation of Regulation 11(2), the Respondent has failed to furnish any evidence of recording justification for categorizing seven customers as low risk and also admitted the default during the hearing. Authorized Representatives submitted that subsequent to identification of default, Respondent has started recording justifications for categorizing customers as low risk but sifting of its approximately 2000 customers will take time. Authorized Representatives informed that an additional recourse has been hired by the Respondent in order to complete the task on priority.
- iv. With regard to the violation of Regulation 6(4), the Authorized Representatives during the hearing accepted the violation and said that currently they do not have NADRA Verisys facility for verification of CNICs. They further informed that presently NADRA is not offering Verisys system to private companies and in place of Verisys, NADRA is providing e-Sahulat system which has a facility to authenticate/verify the particulars of CNICs. Authorized Representatives submitted that they are in process of acquiring NADRA's e-Sahulat system for authentication of Customers' CNICs.
- v. With respect to the violation of Regulation 6(3), the Respondent has failed to furnish any proper evidence supporting that CDD was carried out in case of 4 highlighted instances. During the hearing, the Authorized Representatives submitted that subsequent to the Inspection, Respondent has carried out the requisite CDDs of highlighted cases, however, carrying out CDD for customers' accounts opened prior to 2019 will take time and it will be completed within one month of acquiring e-Sahulat system from NADRA.
- vi. With regard to the violation of Regulation 9(4)(b), the Respondent has failed to furnish any proper evidence supporting that EDD was carried out in case of 4 highlighted instances. During the hearing, the Authorized Representatives submitted that subsequent to the Inspection, Respondent has carried out the requisite EDDs of highlighted cases.
- vii. With regard to the violation of Regulation 13(1), Authorized Representatives submitted that subsequent to the Inspection, Respondent complied with the requirement of the regulatory framework.
- viii. With regard the violation of Regulation 13(3), Authorized Representatives informed that subsequent to the Inspection, Respondent complied with the requirement of the regulatory framework.
7. I have noted that Respondent is taking remedial measures on defaults identified during the Inspection. Moreover, Respondents did not engaged themselves in undue contest of the SCN.



*M. Jee*



**Securities and Exchange Commission of Pakistan**  
**Adjudication Division**  
**Adjudication Department 1**

8. In view of the foregoing and admission made by the Representatives, contraventions of the provisions of AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of **Rs 300,000/- (Rupees three hundred thousand)** is hereby imposed on the Respondent. Further, Respondent is directed to ensure independence of compliance function and Compliance Officer should not be indulged in activities of operational nature. The Respondent is also advised to examine its AML/CFT policy & procedures to ensure that the requirements contained in the AML Regulations are met in letter and spirit.

9. The Respondent is directed to deposit the aforesaid penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days of the date of this Order and furnish Original Deposit Challan to this office.

10. 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.

(Ali Azeem Ikram)

Executive Director (Adjudication Department-1)

Announced on December 24, 2019  
Islamabad

