



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

NO. SCD/AMCW/Adj/19/2018/237 Before Commissioner (SCD)

In the matter of Show Cause Notice issued to ABL Asset Management Limited under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 and Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984

Date of hearing:

November 30, 2018

Present:

ABL Asset Management Limited

- i. Mr. Alee Khalid Ghaznavi, Chief Executive Officer*
- ii. Mr. Saqib Matin, Chief Financial Officer*
- iii. Mr. Bilal Zafar, Head of Internal Audit and Compliance*
- iv. Mr. Azmat Baig, Head of Retail*

Assisting the Commissioner (SCD)

- i. Mr. Muhammad Jahangir, Joint Director*
- ii. Mr. Omar Yahya, Additional Joint Director*

ORDER

This Order shall dispose of proceedings initiated against ABL Asset Management Limited (the "Company" or "AMC") through Show Cause Notice (the "SCN") bearing No. SCD/AMCW/ADJUDICATION/ABLAMC/181/2018 dated November 16, 2018 under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "Act") and Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984 (the "Ordinance").

2. The brief facts of the case are that a limited scope inspection of the Company was ordered under Section 282I of the Companies Ordinance, 1984 vide inspection order bearing number SCD/S&ED-IW/ABLAMC/2018/30 dated August 27, 2018 to review compliance with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML & CFT Regulations") and Circular 12 of 2009. As per the inspection findings, the Company did not obtain required documentation to identify the source of funds and certain other non-compliances were observed regarding four of its clients resulting in non-compliance with the Regulation 6(3) (c), 6(4), 9(1), 9(4) (b) of the AML & CFT Regulations and clause 2(a), 4 (a) of Circular 12 of 2009.

3. Consequently, an SCN dated November 16, 2018 was issued whereby the Company was called upon to show cause in writing by November 26, 2018 as to why penal action may not be taken for the above-mentioned alleged non-compliances and hearing in the matter was scheduled for November 30, 2018.



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4. In response to the SCN, the Company submitted a written reply through letter dated November 26, 2018 along with the following documents;
- Copy of Financial Statements of A/C No. 14686 ("Client A") for the year ended on June 30, 2015;
 - Copy of bank statements, rental cheque, saving certificates for A/C No. 11265 ("Client B");
 - Copy of CNIC of son, copy of sale of property deed regarding A/C No. 15865 ("Client C"); and
 - Copy of Bank statement and electricity bill for A/C No. 15141 ("Client D").

The written response received from the Company provided separate details about the above-mentioned clients which are as under:

S. No.	Client	Details
1	Client A	Client A is running a well-known amusement park in Lahore with a sound and identifiable source of income as per the audited financial statements, thus, it was marked as a 'Low Risk' corporate client, hence not requiring any EDD.
2	Client B	Client B opened his account with Rs. 1 million in January 2015 and subsequently increased investment to Rs. 102.87 million. At the time of opening account with the AMC, Client B was already an account holder of Allied Bank Limited. It was also stated that the client made investments after encashment of National Savings Certificates. Further Client B has an identifiable and regular source of income in the form of rentals received from his property.
3	Client C	Client C is a housewife and her source of funding is from her son, who is a business man. The AMC also mentioned about the sale of a property worth Rs 90 million to prove that it was the source of proceeds for the client.
4	Client D	Client D opened his account with an investment of Rs. 10,000, hence it was marked as low risk. It was further mentioned that the client gradually increased the investment amount over the period of time. His source of income are two photography shops in Quetta.

5. Hearing in the matter was held on November 30, 2018, which was attended by Mr. Alee Khalid Ghaznavi (Chief Executive Officer), Mr. Saqib Matin (Chief Financial Officer), Bilal Ali Zafar (Head of Compliance) and Azmat Baig (Head of Retail), ("the Respondents"). During the



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course of hearing the Respondents made the following submissions mainly reiterating the earlier written stance.

- i. It was mentioned by the Respondents that when they had initially submitted the requisite documents to the SECP's inspection team, the inspection team neither sought any clarification nor gave an opportunity to explain the breaches/violations of the regulatory framework. Furthermore, the Company also argued about the dates when the accounts were opened and date when the new AML & CFT Regulations came into force.
 - ii. The Respondents were advised that complete documentation highlighting evidence of source of funds of abovementioned clients should be submitted. The Respondents' attention was also drawn towards Clause 6 of Circular No. 12 of 2009 which requires that Know Your Customer/Customer Due Diligence ("KYC/CDD") is not a one-time exercise but an ongoing process. The Respondents were also informed that the SCN primarily contains all observations of the inspection team, therefore, providing an opportunity to the Company to explain its view point.
 - iii. The Respondents were apprised about the necessity of diligently conducting the KYC/CDD process while entering into formal relationship with any investor. The Respondents were informed that transferring money from a Bank account to an Asset Management Company's account is not a reliable mean of identifying the source of funds of a customer and in no way it absolves the Company of its responsibility to carry out necessary checks and balances, in accordance with the requirements of the prevailing regulatory framework. The onus of conducting a thorough KYC/CDD process falls entirely on the Asset Management Company itself.
6. In light of the points raised during the hearing, the Respondents through their e-mail dated December 05, 2018 provided the following additional documents to substantiate their written stance and arguments presented during the hearing:
- a. Client A- Audited Financial Statements for the Year Ended June 30, 2017;
 - b. Client B- Agreements of properties rented by the client;
 - c. Client C- Documents of Sale of property (land and building) worth Rs.90million and copies of banking instruments through which the said payment was made; and
 - d. Client D- Rental agreement of property, business payment receipt from customer, monthly profits on fixed deposit.
7. The analysis of the aforementioned documents submitted by the Company reveals that:



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- a) Client A- Net worth of the company is Rs. 570 million as on June 30, 2017 so it has credit worthiness to make such an investment. AMC should have conducted EDD because of the insufficient information available at the time of account opening;
- b) Client B- Evidence provided regarding sufficiency of funds for the purpose of making investment;
- c) Client C- Evidence provided regarding sufficiency of funds. However, EDD should have been conducted in line with the nature of the transaction; and
- d) Client D- Insufficient documents submitted to correspond with the investment amount. EDD should have been conducted and correct risk categorization should have also been made.

8. I have examined the facts of the case, written responses submitted along with documentary evidences, relevant regulatory requirements and the arguments put forth by the Respondents during the course of hearing. I am of the view that the Company was found to be negligent to the extent that the requisite documents were not provided/readily available during inspection rather these were submitted during the course of adjudication proceedings. However, by taking a lenient view this time, the Company is hereby strictly warned to ensure compliance of the AML/CFT regulatory framework in future. Non-compliances, if any, shall be dealt with in accordance with the enforcement action(s) as provided in law.

9. It is pertinent to mention that the regulatory requirements relating to AML/CFT have been implemented since the year 2009. Hence, all regulated persons are expected to ensure strict compliance with this regime by remaining vigilant and putting in place requisite policies and procedures. I also consider it as important to direct the management of the Company to organize appropriate training programs for the concerned employees to enable them to better understand the requirements of the regulatory framework for AML/CFT vis-à-vis their respective roles and responsibilities.

10. This Order is issued without prejudice to any other action that the Commission may initiate against the Company in accordance with the law on matter subsequently investigated or otherwise brought to the knowledge of the Commission.

(Shanazab Ali)

Commissioner (SCD)

Announced: December 27, 2018 at Islamabad