



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION

No.SCD/AMCW/ADJ/31/2019-*g*

August 5, 2019

The Chief Executive Officer,
ABL Asset Management Limited,
Plot No. 14, Main Boulevard,
DHA, Phase-VI,
Lahore.

Subject: Order in the matter of Show Cause Notice 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 for violations of, inter-alia, Regulation 6(4), 7(1)(b) & 11(2) of AML and CFT Regulations, 2018

Dear Sir,

Please find enclosed herewith copy of an order dated August 5, 2019, passed in the subject matter for your information and compliance.

Yours truly,

Tanzila Nisar Mirza
Additional Director

Encl: As above.



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
(ADJUDICATION)**

Before the Commissioner (SCD)

In the matter of Show Cause Notice 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 for violations of, inter-alia, Regulation 6(4), 7(1)(b) & 11(2) of AML and CFT Regulations 2018

<i>Date of hearing:</i>	<i>July 26, 2019</i>
<i>Present (on behalf of ABL Asset Management Limited)</i>	<i>i. Mr. Alee Khalid Ghaznavi, CEO ii. Mr. Saqib Mateen, Company Secretary/CFO iii. Mr. Tanvir Haral, Head of Operations</i>
<i>Assisting the Commissioner (SCD)</i>	<i>i. Ms. Bushra Aslam, Executive Director ii. Ms. Tanzila Nisar Mirza, Additional Director</i>

ORDER

This Order shall dispose of proceedings against ABL Asset Management Limited (“ABL-AML”, the “Company”), which is a public limited company licensed to undertake the business of Asset Management and Investment Advisory Services initiated through Show Cause Notice (the “SCN”) bearing No. SCD/AMCW/ADJ/31/2019-06 dated July 8, 2019 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.

2. **AND WHEREAS**, a scope specific inspection of ABL Asset Management Ltd was ordered under powers conferred upon the Securities and Exchange Commission of Pakistan under Section 282I of the Companies Ordinance, 1984 vide inspection order bearing number SCD/S&ED/ABLMC/2019/40 dated April 15, 2019.

3. **AND WHEREAS**, the scope of the inspection extended to review and assess the level of compliance of the AMC with respect to the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (hereinafter referred to as the AML & CFT Regulations). However, during the course of inspection, various violations/non-compliances were observed. The inspection team highlighted several deficiencies in the customers’ record/documentation (selected on sample basis) which were in violation of several provisions of AML & CFT Regulations.

4. **AND WHEREAS**, the Company was called upon to show cause in writing as to why penal action should not be taken against the Company for violations of, inter-alia, Regulations 6(4), 7(1) (b) & 11 (2) of AML & CFT Regulations.

5. **AND WHEREAS** a written reply was received vide letter dated July 18, 2019 from the Company, wherein the contentions made in the SCN were categorically addressed. The following arguments were provided in the reply;

- i. With respect to contents of para 3(i)(1), regarding business relationship with a company named SICPA Inks Pakistan (Pvt.) Ltd since November 2015, ABL-AML contended that the CNICs/Passports of all directors, incorporation documents, Form A, Certificates of Incorporation/Commencement of Business and other KYC details were available. However, after promulgation of AML/CFT Regulations 2018, discrepancy was found with respect to absence of beneficial ownership information of SICPA Inks Pakistan (Pvt.) Limited, and the same was communicated vide letter dated April 24, 2019 to SICPA Inks Pakistan (Pvt.) Ltd. The company was requested to provide shareholding details of SICPA Holdings S.A., which had a stake of 53% in SICPA Inks Pakistan (Pvt.) Ltd. ABL-AML further mentioned that the remaining 47% was held by Pakistan Security Printing Corporation (Pvt.) Ltd on behalf of SBP/Federal Government. ABL-AML provided the following justification for not conducting due diligence of the company;

"We are of the view that SBP/Intelligence agencies on behalf of Federal Government must have conducted their due diligence and only after that formed the JV with SICPA group in Pakistan. The company provides inks for currency notes and other sensitive material to Pakistan Security Printing Corp. (Pvt.) Ltd."

In regards to the owners of the SICPA Group, ABL-AML stated that the official website of SICPA shows that "Amon family" (Swiss nationals) are the ultimate natural persons who own the SICPA group of companies through various holding companies. SICPA Pakistan has also confirmed the shareholding structure of SICPA Holdings S.A., and names of ultimate owners of holding company based in Switzerland have been obtained and negative list screening has been performed on the basis of their passports.

- ii. With respect to Point 3 (i) (2), regarding business relationship with a company named A-One Enterprises (Pvt.) Ltd since November 2016, ABL-AML contended that it was in the process of due diligence of beneficial ownership of Thall Limited (holding company of A-One Enterprises (Pvt.) Ltd) when the show cause notice was received. Mustafa Limited, (>10% beneficial owner) as reported by Thall Limited is registered in United Kingdom. Thall Limited has provided details of Mustafa Limited and its director Mr. Peter Andreas Cott. Subsequently screening for both Mustafa Limited and its' director has been performed. ABL-AML has requested Thall Limited to provide further details of its beneficial owner, as it is a listed company on PSX and has to file beneficial owners report to SECP. ABL-AML has further informed that accounts have

been marked as high risk for monitoring all transactions until it is satisfied about its beneficial owner.

- iii. With respect to contents of para 3(ii), regarding business relationship with a company named Better Tomorrow Welfare Organization since December 2013, ABL-AML declared that the organization is a registered welfare organization with Directorate of Social Welfare, Govt. of Punjab. It has been operating in Rawalpindi since 1998 primarily to provide education to poor children and employment to poor and deprived women along with training in knitting and weaving. ABL-AML asserted that Enhanced Due Diligence of members of governing body has been conducted on the basis of CNICs of all members of governing body as well as audited financial statements for 2018 of "Better Tomorrow Welfare Organization" in which investment with ABL-AML is reflected. Copies of CNICs & Verisys reports, financials, and screening reports were submitted by ABL-AML in reply to the show cause notice. ABL-AML further informed that the balance of the account is NIL since April 1, 2019.
- iv. With respect to Point 3(iii) regarding numerous cases where customers had been marked as low risk, but the justification had not been recorded in writing, ABL-AML contended that subsequent to promulgation of AML & CFT Regulations 2018, the KYC section of the account opening form had been amended. The amendment contains a declaration from the investor with respect to six basic questions based on which the investor is placed in a high or low risk category. ABL-AML further highlighted that the operations department during scrutiny also verifies the risk category, and if it disagrees, writes the rationale on the back of account opening form along with instructions to conduct SDD/CDD/EDD.

ABL-AML asserted that the Inspection team was also shown evidence of such markings on the back of few account opening forms. The provision for risk marking has also been developed in the Unit Holder Management system. The operations team has been advised to strictly follow the AML/CFT Regulations and internal AML & KYC policy.

ABL-AML insisted that the accounts in which Inspection team pointed out discrepancies were established before the promulgation of AML/CFT Regulations 2018. ABL AML has already put in place a revised policy, various SOPs, system customizations and trainings to follow and comply with the said regulations for accounts of legal persons as well as natural persons established post promulgation. ABL-AML also emphasized that it was making serious efforts to obtain documentation for accounts established before the promulgation of the said regulations.

6. The hearing in the matter took place on July 26, 2019 wherein Mr. Alee Khalid Ghaznavi, CEO, Mr. Saqib Mateen, Company Secretary/CFO and Mr. Tanvir Haral, Head of Operations appeared on behalf of the Company. They reiterated their assertions contained in their written reply dated July 18, 2019. The Respondents further submitted that they accepted the non-compliances, and hence do not contest the allegations made in the show cause notice. The respondents also

stated that they fully realize that the company was not completely compliant with the AML and CFT Regulations, 2018 and was trying its best to expedite efforts in this regard by constantly upgrading the systems, training the staff and improving internal processes.

7. I have analyzed the facts of the case, considered the documentary evidence placed on record, and the arguments put forth by the Respondent Company. I am of the considered view that the submissions by ABL-AML are not plausible on the following grounds:

- i. The view of ABL-AML in respect of not conducting due diligence of SICPA Inks Pakistan (Pvt.) Ltd., on the assumption that SBP/Intelligence agencies must have conducted their due diligence on behalf of Federal Government, is not tenable. ABL-AML was required to conduct its own CDD/EDD even if a company happens to be well known, has business relationships with other asset management companies or has formed joint ventures with any Government agency. ABL-AML needs to clearly understand that it is incumbent upon the AMC to conduct its own due diligence of its customers notwithstanding the customer's business relationships with government agencies.
- ii. In the case of A-One Enterprises (Pvt.) Ltd., it is obvious that due diligence had not been exercised while establishing the business relationship, as a result of which the requisite mandatory documents were not present in the investors records. Moreover, the process of obtaining mandatory documents was initiated after the inspection team identified the gap in compliance. The fact that ABL-AML had not initiated the process of verifying customers/beneficial owners' identity after the issuance of the AML and CFT Regulations 2018, indicates weakness in responsiveness of the management.
- iii. As far as the deficiencies in the records in terms of mandatory documents of the account of "Better Tomorrow Welfare Organization" and similar other accounts, pointed out during the inspection are concerned, the efficacy of the compliance function and internal audit department seems uncertain. However, since ABL-AMC has obtained the requisite documents and has also provided statement of the respective account that was largely inactive, and the balance was nil at the time of the inspection, I am inclined to take a lenient view in this particular instance.
- iv. The CEO's argument that the decision to rate a customer as low risk in case of legacy accounts is not plausible. The CEO kept referring to the legacy accounts in reply to more or less every violation of the AML and CFT regulatory framework. AML and CFT Regulations, 2018 were effective immediately after their issuance and warranted that ABL-AML initiate the process of implementation/rectification at its earliest. Had the company done so, all discrepancies/deficiencies of the legacy accounts would have been removed by the time the inspection took place. The CEO must take responsibility for following the policies in letter and spirit and inculcate a spirit of compliance in his wider team.


8. It is hence concluded that the AMC is responsible for the acts and omissions of all persons to whom it may delegate any of its functions. Therefore, the gaps witnessed in the performance of the employees for discharging their responsibilities is in fact the failing of the Company. The CEO mentioned that Company had requested SECP for extension in timeline for compliance with the AML and CFT regulatory framework. Merely corresponding with the regulator does not imply that such a request has been acceded to. In my view, ABL-AML as an asset management company with a sizeable customer base is obligated to ensure that it is implementing the AML and CFT Regulations, 2018 in letter and spirit.

9. I have also taken into consideration the work in progress for overhaul of the AML/CFT compliance framework, submitted by ABL-AML specifically on how to improve and strengthen its operational procedures and systems, training programs for staff, automation of systems with inbuilt checks and alert generation capability, and reporting of STRs to Financial Monitoring Unit (FMU). However, ABL-AML is hereby directed to provide a time bound plan by August 31, 2019, whereby it should provide a roadmap for ensuring complete compliance with the AML and CFT regulatory framework.

10. Based on my observation at paras 7 and 8 above, I am of the considered view that leniency on non-compliance towards requirements of AML & CFT Regulation 7(1)(b) and 11(2) is not possible since SECP is responsible for ensuring implementation and enforcement of the applicable regulatory framework by entities that fall under its regulatory ambit. Therefore, I hereby conclude the proceedings initiated under Section 40A of SECP Act, 1997 by imposing an aggregate fine of Rs.200,000 (Rupees two hundred thousand only) on the Respondent.

11. The aforesaid fine must be deposited in the designated bank account maintained with MCB Bank Limited in the name of SECP within seven days from the receipt of the order. The receipt or bank challan is to be furnished to SECP. In case of non-deposit of penalty within the given time, a penalty of Rs.20,000 per day during which default continues shall be charged, after which proceedings for recovery of the fine as arrears will be initiated.

12. This order is being 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.


Aamir Khan
Commissioner (SCD)

Announced on:
05-08-2019 at Islamabad.