



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I
Adjudication Division

Through Courier

Before the Executive Director (Adjudication Department-1)

In the matter of Show Cause Notice issued to M/s. DJM Securities (Private)
Limited under Section 40A of Securities Exchange Commission of Pakistan Act,
1997.

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| Date of Hearing | July 22, 2020 |
| Present at the Hearing | i. Mr. Abdul Samad Dawood (Chief Executive Officer) |
| Representing DJM Securities (Pvt.) Limited | ii. Mr. Muhammad Asad Khan (Compliance Officer) |
| | iii. Yaqoob Jan Muhammad (Company Secretary) |

ORDER

This Order shall dispose of the proceedings initiated against the DJM Securities (Pvt.) Limited (the “Respondent”) and its Compliance Officer through Show Cause Notice No. 2(244) SMD/ADJ-1/2020, dated June 02, 2020 (the “SCN”) under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the “SECP Act”).

2. Brief facts of the case are that the Company is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited (“PSX”) and licensed as a securities broker with the Securities and Exchange Commission of Pakistan (the “Commission”).

3. The inspection was initiated vide inspection notice No. T051 dated December 17, 2019 with a scope to review and check compliance with applicable AML/ CFT Regulatory Framework including Securities and Exchange Commission of Pakistan (Anti Money Laundering and Counter Financing of Terrorism Regulations) 2018 (hereafter referred as AML Regulations) and other related Circulars, Notification and Directives etc. The review of the company was carried out by the Joint Inspection Team (“JIT”) which comprised of staffs representing Pakistan Stock Exchange Limited (“PSX”), Central Depository Company of Pakistan Limited (“CDC”) and National Clearing Company of Pakistan Limited (“NCCPL”). The observations were shared with the Respondent by the JIT vide Letter of Findings (“LOF”) dated December 23, 2019 and the Respondent provided its comments on the observations vide letter dated December 30, 2019.

4. The Review revealed that the Respondent, *prima facie*, was non-compliant with the AML Regulations, detailed as under.





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

- a. The Respondent does not have data base of customers containing details of beneficial owner for forward and backward monitoring of proscribed or designated persons in contravention of Regulation 4(a) & 13(7) of the AML Regulations.
- b. The Respondent had not provided any report/ email/ internal memo which had been issued to BOD/ Senior Management for informing the nil position of the screening process in violation of Regulation 15(3) of the AML Regulations.
- c. The Respondent did not have access to NADRA Verisys system and failed to conduct Verisys of their clients, their nominees, joint account holders, authorized persons, BODs, trustees, administrators and executors in case of 15 customer accounts which were selected on sample basis in contravention of Regulation 6(4) read with Annexure I(i) of the AML Regulations.
- d. The Review Report revealed 5 instances of clients' accounts wherein source of income/ beneficial ownership was not established by the Respondent. These clients had significant custody and trading activity in their accounts however, such information with regard to the source of income/ funds and beneficial ownership was not established by the Respondent or was arranged subsequent to the observation highlighted during the review. Therefore, the Respondent acted in contravention of Regulation 6(3)(a), 6(5)(a), 6(3)(c) & 13(1) of the AML Regulations.
- e. the Respondent had not included following requirements in its AML Policy to comply with relevant clauses of AML Regulations:
 - i. Identification of TFS risks as mentioned in NRA 2019.
 - ii. Procedure in respect of clients marked as High Risk.
 - iii. Adequate Compliance Function's procedures to address ML and TF Risks.
 - iv. Measures to identify beneficial owner (direct or indirect) of its clients.

In view of the above deficiencies observed in AML/CFT Policy of the Respondent, the Compliance Officer of the Respondent also failed to monitor, review and update its AML/CFT Policies and procedures of the regulated person and therefore, acted in contravention of Regulation 4(a) and 18(c)(i) & (iii) of the AML Regulations.

5. In view of the aforesaid, the Respondent *prima facie* acted in contravention of the AML Regulations. The Commission therefore took cognizance of the aforesaid violations, issued SCN dated June 02, 2020 to the Respondent. The Respondent vide its letter dated June 25, 2020, relevant extract of which is reproduced below:

- a. *Observation was made by the committee that the respondent does not have data base of customers containing details of beneficial owner for forward and backward monitoring of proscribed or designated persons. In this regard, since the pointing out by the JIT team, the company constantly receives an updated list of NACTA and UNSC through email and it makes sure of performing periodic screening of our existing clients along with the beneficial owners. The vendor performs the update in our software and a report is then generated.*
- b. *Observation was made by the committee that the respondent had not documented the periodic screening of its existing customers' database including their nominees, joint*





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

account holders, authorized persons/BoDs and trustees. In this regard, the company has now maintained all database of our clients including their nominees, joint account holders, authorized persons/BoDs and trustees in our KYC forms and back office under all proper rules and regulations described to us by the relevant authorities. This data is now also maintained in our back-office software because of which we can now perform a proscribed person screening on all the nominees, joint account holders, authorized persons/BoDs and trustees as well. The company is trying its best to overcome challenges faced mainly where the client is a dependent person. In these instances, we make sure that an undertaking is signed behalf of the client confirming his beneficial owner and all necessary documentations are completed after which they are entered in our back-office software.

- c. It was observed by the committee that the respondent did not have access to NADRA Verisys system and failed to conduct Verisys of their clients and other relevant persons in case of 15 customer accounts which were selected on sample basis in contravention of the AML regulations. In this regard, it is necessary to mention that the company is already using the KYCCKO recommended device for Client Biometric Verification that was brought for Rs.12500 and we also verify the CNIC of our clients from the notary public with attestation to fulfil all necessary requirements for client authentication. Considering the scale at which our brokerage house operates at, it is really difficult and financially not feasible for a small-scale company like us to use the Verisys system as this system is largely operated by banks or large-scale brokerage firms. Our company has a client base of only around 500 people with most of them high net worth clients. In this competitive market it is not easy to compete without minimizing necessary cost of operating business and therefore it can be found that almost all brokerage houses in the industry with the size of operation similar to us, do not have access to the desired NADRA Verisys system. We assure you that once our Client base increases significantly and our company decides to provide retail services for the market, we shall be obliged to use the recommended NADRA Verisys system.
- d. Observation was made by the committee that there were 5 instances of clients' accounts wherein source of income/beneficial ownership was not established by the respondent. In this regard, the company had possession of documents proving the authenticity of source of income for the 5 clients that were inspected by the review Committee but had mistakenly forgotten to submit it to the Review Committee as it was thought that only forms of client were needed to be submitted. After the realization of our mistake we made sure to submit the documents regarding source of income/beneficial ownership to the relevant authority but all the documentary evidences had already forwarded to the review committee before that. The company has also made assure that from now on it is essential for clients to submit a documentary proof of their annual income/beneficial owner before opening an account in our brokerage house. Phone calls and emails have been sent twice to all clients that had previously not established their source of income with us. Collecting Documentary evidence regarding source of income of every client is an ongoing process that our compliance department is making sure of. We plan to attain documents of all clients that have significant custody and trading activity in their accounts and if any clients fail to do so, their accounts shall be frozen by the company in due time once they are given a final warning by the company.





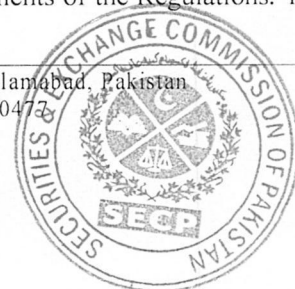
Securities and Exchange Commission of Pakistan
Adjudication Department-1
Adjudication Division

- e. *It was observed by the committee that AML/KYC policy was not updated so as to meet the requirements of the AML regulations. In this regard, the AML/KYC policy has now been updated especially with the NRA, issued 2019. The necessary additions in the policy were made in the Board Meeting of the company held on March 16, 2020 and was also recorded as minutes. Necessary additions in the policy also included Identification of TFS risks, Procedure for marking high risk clients, methods to identify beneficial owner of clients and also Adequate Compliance Function adopted by the company against AML-TF risks”*

6. The Respondent was accorded hearing opportunity on July 22, 2020 which was attended by Mr. Abdus Samad Dawood (Chief Executive Officer), Mr. Muhammad Asad Khan (Compliance Officer) and Mr. Yaqoob Jan Muhammad (Company Secretary) as Authorized Representatives on behalf of the Respondent. The Authorized Representatives during the hearing reiterated the arguments as provided in written response to the SCN.

7. I have examined the written and oral submissions of the Respondent and its Representative. In this regard, I observe that:

- i. With regard to the first observation, the Respondent was inquired regarding the completion of such database of beneficial owners of its clients for screening against proscribed individuals. The Respondent during the hearing provided that their database has been updated and such information regarding beneficial ownership has been incorporate into their automated system which is operational since February, 2020. However, during the review, such information was not readily available for screening against proscribed individuals and it has been observed that the rectification was made subsequent to the observation highlighted during the review. The Respondent was therefore, found non-compliant with Regulation 4(a) & 13(7) of the AML Regulations.
- ii. With regard to the documentary evidence regarding the screening process, the Respondent provided that they have updated their systems to perform automatic screening of all its clients and associated individuals which is operations since February, 2020. Further, the reporting structure has been redefined and the senior management now receive the reporting of screening which is also presented to the Board of Directors. However, such rectification has been made subsequent to the promulgation of AML Regulations in June, 2018 which indicates significant delay on part of the Respondent to comply with the requirements of record keeping prescribed in AML Regulations. The Respondent was therefore, found non-compliant with Regulation 15(3) of the AML Regulations.
- iii. With regard to the observation regarding the NADRA Verisys of its clients, the Respondent submitted that they are using bio metric verification for its clients and also verify the identity documents from notary republic with attestation to fulfil requirements for client’s authentication. Further, the Respondent submitted that it has a small-scale business and is not feasible to conduct Verisys for all its clients. Here it is pertinent to mention that AML Regulations clearly required the regulated person to conduct Verisys of all its clients and associated persons identity documents from NADRA. Therefore, biometric verification may not absolve the responsibility of the Respondent to comply with requirements of the AML Regulations. Further, lack of resources and scale of business may not be used to contend the requirements of the Regulations. Therefore, the





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

Respondent is found to be non-compliant with Regulation 6(4) read with Annexure I(i) of the AML Regulations. Further, in light of the AML Regulations, the Respondent is advised to complete Verisys of all legacy accounts and new accounts of its clients and associated individuals at the earliest in compliance with the AML Regulations. Further, any concerns regarding the access to NADRA Verisys system may be taken up with the AML Department of the Commission for clarity in the matter.

- iv. With regard to the observation regarding the deficient source of income/ beneficial ownership of its clients, the Respondent submitted that the documents were already available with it however, they were mistakenly submitted at a later date. The inspection team had observed that the Respondent had provided tax return for one of the five clients. However, source of income/ beneficial ownership for other clients were arranged subsequent to the observation highlighted during the review. The Respondent was therefore, found in contravention of Regulation 6(3)(a), 6(5)(a), 6(3)(c) & 13(1) of the AML Regulations.
- v. With regard to the observation regarding update in its AML/CFT Policies, the Respondent during the hearing provided that the updated policy was approved in March, 2020 subsequent to the observation highlighted during the review. The Respondent's policy was therefore, found deficient with respect to several aspects of AML Regulations during the review. Further, the Compliance Officer of the Respondent had also failed to review its policy/ procedures in line with the requirements of the AML Regulations and to keep it up to date. Therefore, the Respondent was found to be non-compliant with Regulation 4(a) & 18(c)(iii) of the AML Regulations.

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. 400,000/- (Rupees Four Hundred Thousand Only)** is hereby imposed on the Respondent. 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 date this Order and furnish the original deposit challan to this Office. Further, the compliance officer of the Respondent is strictly advised to ensure that its AML/CFT policy is being updated in a timely manner as per the requirements of the AML Regulations.

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



(Ali Azeem Ikram)

Executive Director – Adjudication Department-1

Announced on August 26, 2020
Islamabad