



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department- I

### Adjudication Division

Through Courier

Before

Hammad Javed, Additional Director / Head of Wing  
(Licensed Entities-Adjudication Department-I)

In the matter of

Zafar Securities (Pvt.) Limited

Number and date of Show Cause Notice (SCN)	No. 1(63)SMD/Adj-1/LHR/2019-1059 July 04, 2023
Date of Hearing:	August 03, 2023
Present at the Hearings:	Mr. Omar Junaid (Compliance Officer) <i>Authorized Representative</i>

### ORDER

**UNDER REGULATION 31 OF THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (ANTI MONEY LAUNDERING AND COUNTERING FINANCING OF TERRORISM) REGULATIONS, 2020 READ WITH SECTION 6(A)(2)(h) OF THE ANTI-MONEY LAUNDERING ACT, 2010 AND RULE 4(1)(a) & 6(1) OF THE AML/CFT SANCTIONS RULES, 2020**

This Order shall dispose of the proceedings initiated against Zafar Securities (Private) Limited (the Company and/or the Respondent) through Show Cause No.1(63)SMD/Adj-1/LHR/2019-1059 dated July 04, 2023 (the SCN) under Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (the AML Regulations) read with Section 6(A)(2)(h) of the Anti - Money Laundering Act, 2010 (the AML Act) and Rule 4(1)(a) & 6(1) of the AML/CFT Sanctions Rules, 2020 (the Rules).

2. The Respondent is a licensed future broker of the Pakistan Mercantile Exchange Limited (the PMEX).

3. The PMEX initiated inspection of the Respondent vide Inspection Notice No. PMEX/RAD/191/2022 dated October 10, 2022 covering a review period of 03 months starting from July 01, 2022 to September 30, 2022. The scope of review included examining compliance status with respect to certain provisions, stipulated under the AML Regulations. The PMEX vide letter dated December 20, 2022 shared findings of the inspection with the Respondent, who submitted its response on December 22, 2022.

4. The aforementioned transpired that the Company, *prima facie*, was non-compliant with Regulation 9 of the AML Regulations read with clause (o) of Note (i) to Annex-1, thereof in terms three (03) instances. The Respondent, for two (02) instances *i.e.* Trading ID: 201570533 & 201570534, failed to submit any supporting documents of the client's income that could verify their investments





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amounting to Rs.15.99 million and Rs.71.47 million, respectively. In remaining one (01) instance, the Respondent failed to provide salary slip/service card/ certificate which reflects their income. However, subsequent to the Review, the Respondent provided salary slips of three clients along with copy of wealth statement of just one client. However, it was noted that the salary slip provided for this remaining one (01) instance does not match with the funds allocated in her trading account.

5. In view of the above, the aforesaid violation attracts applicability of Regulation 31 of the AML Regulations read with Section 6A(2)(h) of the AML Act and Rule 4(1)(a) & Rule 6(1) of the Rules.

6. The relevant provisions of the law are reproduced as under:

### **Regulation 9 of the AML Regulations:**

*The regulated person shall:*

- (a) identify the customer; and
- (b) verify the identity of that customer using reliable and independent documents, data and information as set out in Annex 1.

### **Note (i) (o) to the Annex-I of the AML Regulations:**

*(i) For due diligence purposes, at the minimum following information shall also be obtained and recorded on KYC (Know Your Customer)/CDD form or account opening form:*

- (o) Profession / Source of Earnings/ Income: Salary, Business, investment income;

### **Regulations 31 of the AML Regulations:**

*(1) Any contravention of these regulations shall be cognizable by the Commission in accordance with section 6A of the AML Act and liable to sanction provided in the AML/CFT Sanctions Rules, 2020 and imposed by the Commission according to Clause (h) of Sub-section (2) of Section 6A of AML Act.*

### **Section 6(A)(2)(h) of the AML Act**

*(2) AML/CFT regulatory authority shall exercise the following powers and functions with respect to its reporting entities, namely: -*

- (h) impose sanctions, including monetary and administrative penalties to the extent and in the manners as may be prescribed, upon their respective reporting entity, including its directors and senior management and officers, who violates any requirement in section 7(1), 7(3) to 7(6) and 7A to 7H and any rules or regulations made thereunder or those who fail to comply with the TFS regulations. Any person aggrieved by the imposition of sanctions under this clause may prefer an appeal in such manner and within such period to such authority as may be prescribed;

### **Rule 4(1)(a) of the Rules**

*(1) On any contravention as set out in rule 3(2), any or all of the following sanctions may be imposed by the concerned AML/CFT Regulatory Authority, namely:-*

- (a) Impose a monetary penalty in accordance with these Rules;

### **Rule 6(1) of the Rules:**

*(1) The AML/CFT Regulatory Authority shall apply monetary penalties upto Rs.100 Million per violation, in accordance with the risk-based penalty scale of the respective AML/CFT Regulatory Authority.*

7. Keeping in view the aforesaid, the SCN dated July 04, 2023 was issued to the Respondent, calling upon it to show cause in writing as to why the penalty as provided under Regulation 31 of AML Regulations read with Section 6A(2)(h) of the AML Act read with rules 4(1)(a) and 6(1) of the AML Rules may not be imposed. In response to the SCN, the Respondent submitted response vide letter



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dated July 13, 2023 duly signed by its Chief Executive Officer, relevant extracts are reproduced as under:

*".....First and foremost, we would like to clarify that we were not aware of the requirement for due diligence on PMEX clients regarding the submission of supporting documents related to income verification. As a licensed future broker of the Pakistan Mercantile Exchange Limited (PMEX), we have always relied on the PMEX system, where clients directly deposit funds into their PMEX accounts. Our role primarily involves facilitating trading activities on behalf of our clients, and we do not handle direct deposits or maintain custody of client funds. However, we fully understand the Importance of complying with all relevant regulations, including those related to anti-money laundering and counterring financing of terrorism. We acknowledge that our previous Commodity team may have lacked adequate awareness and understanding of the AML Regulations and we have taken immediate action to address this issue. We have Implemented changes within our team, ensuring that the new team members are well-versed in the requirements and expectations set forth by the Securities and Exchange Commission of Pakistan (SECP).*

*Moving forward, we assure you that we will exercise increased vigilance and diligence in fulfilling the required expectations in terms of compliance with the AML Regulations....."*

8. In order to provide the Respondent an opportunity of personal representation, the hearing in the matter was fixed for August 03, 2023 before the undersigned, wherein Mr. Omar Junaid, Compliance Officer of the Company, appeared as Authorized Representative of the Respondent (**the Representative**). During the hearing, the Representative reiterated the contents of the Respondent's written response vide dated July 13, 2023 and assured that the Respondent will take the necessary measures to ensure compliance with the AML Regulations in future. During the hearing, the Representative was advised to provide documents as evidence of compliance by the Respondent. The Representative, vide email dated August 03, 2023, submitted source of earnings/income documents of three (03) clients from its record, which were reviewed and found not to be relating to the mentioned instances except for one, for which copy of monthly salary statement of November 2022 was provided.

9. I have reviewed the facts of the case and considered the written as well as verbal submissions of the Respondent and its Representative in light of the applicable legal provisions and have observed that the Respondent, in response to the SCN and the Representative, during the hearing, admitted the violation at the outset. The Respondent and its Representative cited unawareness to requirement of obtaining and recording documents for income verification as reason for violation, which cannot be considered as a plausible excuse. Moreover, the document provided for one (01) noted instance i.e. copy of monthly salary statement of November 2022 showing monthly net salary of Rs. 45,929, is for the month subsequent to the review period and does not commensurate with the funds allocated in her respective account that shows an investment of Rs. 7.06 million. Further, the documents provided for other two (02) instances have been found to be unrelated to the remaining two (02) noted instances having Trading ID: 201570533 & 201570534 and showing investments amounting to Rs. 15.99 million and Rs. 71.47 million, respectively. Resultantly, the Respondent's failure to comply with Regulation 9 of the AML Regulations read with clause (o) of Note (i) of Annexure-1 thereof in all three (03) above referred instances is established.

10. In view of the foregoing facts of the case and established contraventions, provisions of Regulation 31 of AML Regulations read with Section 6A(2)(h) of the AML Act read with rules 4(1)(a) and 6(1) of the AML Rules are attracted. Therefore, I, in terms of powers conferred upon me, impose a penalty of **Rs. 60,000 (Pak Rupees Sixty Thousand Only)** on the Respondent on account of the aforesaid established non-compliances of the aforesaid provisions of the law.







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11. The Respondent is advised to ensure its meticulous compliance with all applicable Laws, Rules, Regulations and Directions etc. notified/issued from time to time relating to anti money laundering and countering financing of terrorism in true letter and spirit, at all times.

12. The Respondent is hereby directed to deposit the aforesaid fine in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and furnish receipted voucher issued in the name of the Commission for information and record.

13. This Order is issued without prejudice to any other action that the Commission may initiate against the Company and/or its CEO in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.



A handwritten signature in blue ink is written over a horizontal line. The signature is stylized and appears to read 'Hammad Javed'.

**Hammad Javed)**

Additional Director / Head of Wing  
Licensed Entities - Adjudication  
Department-I

**Announced:**  
September 05, 2023  
Islamabad