



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION

No.SCD/ADJ/AMIML/32/2019-22

August 5, 2019

**The Chief Executive Officer,**  
Al-Meezan Investment Management Limited,  
Ground Floor, Block-B, Finance & Trade Center,  
Shahrah-e-Faisal,  
Karachi.

Subject: Order in the matter of Show Cause Notice under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997) and Section 282J(1) read with Section 282M (1) of the Companies Ordinance, 1984 for violations of, inter-alia, Regulation 2(x) (read with Regulation 9(4)(a), Regulation 6(3), Regulation 6(4), Regulation 6(5)(a) and Regulation 6(10), Regulation 7(1) and 7(2), Regulation 10(3) read with Regulation 9(4)(b) and (c), Regulation 11(2), Regulation 13(3) of the AML and CFT Regulations, 2018 and Clause # 17(vii) of the Guidelines to AML/CFT.

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 2(x) (read with Regulation 9(4)(a), Regulation 6(3), Regulation 6(4), Regulation 6(5)(a) and Regulation 6(10), Regulation 7(1) and 7(2), Regulation 10(3) read with Regulation 9(4)(b) and (c), Regulation 11(2), Regulation 13(3) of AML/CFT Regulations, 2018 and Clause # 17(vii) of Guidelines to AML/CFT.

Date of hearing:	July 26, 2019
Present (on behalf of Al-Meezan Investment Limited)	i. Mr. Mohammad Shoaib, CEO ii. Mr. Salman Muslim, Head of Internal Audit iii. Mr. Eunas Viqar, Head of Compliance
Assisting the Commissioner (SCD)	i. Ms. Bushra Aslam, Executive Director ii. Ms. Tanzila Nisar Mirza, Additional Director

**ORDER**

This Order shall dispose of proceedings against Al-Meezan Investment Management Limited (“AMIML”, 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/ADJUDICATION/AMIML/32/2019/05 dated July 08, 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 (the “Ordinance”).

2. **AND WHEREAS**, a scope specific inspection of AMIML was ordered under powers conferred upon the Securities and Exchange Commission of Pakistan (SECP) under Section 282I of the Ordinance vide inspection order bearing No. SCD/S&ED-IW/AMIML/2019/42 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 (“AML and CFT Regulations, 2018”). However, during the course of inspection, various violations/non-compliances were observed. The inspection team highlighted several deficiencies in customers’

record/documentation (selected on sample basis) which were in violation of several provisions of AML and CFT Regulations, 2018.

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, under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 for violations of Regulation 2(x) read with Regulation 9(4)(a), Regulation 6(3), Regulation 6(4), Regulation 6(5)(a) and Regulation 6 (10), Regulation 7(1) and 7(2), Regulation 10(3) read with regulation 9 (4)(b) and (c), Regulation 11(2), Regulation 13(3) of AML and CFT Regulations 2018 and Clause # 17(vii) of Guidelines to AML/CFT.

5. **AND WHEREAS** a written reply was received vide letter dated July 17, 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 Point 3(i), regarding details of authorized signatories/directors/trustees of clients not being recorded in the unitholder system, the Company informed the Commission that subsequent to issuance of AML Regulations in June, 2018 and approval of Al-Meezan's AML Policy in October 2018, the practice of recording the above details in the unitholder system started in December 2018. The Company further informed that it had also updated the names of authorized signatories/directors/trustees of all customer accounts, which were opened before December 2018.

The Company confirmed that it had started implementation of the AML Procedures, which required the identification of beneficial owners holding controlling interest. For existing corporate customer base a remedial exercise for review of high-risk customers is expected to be completed by December 31, 2019.

- ii. In context of Para 3(ii), relating to screening of signatories/ directors/ trustees of the client against the proscribed / sanctions list, AMIML highlighted that screening of signatories/ directors/ trustees against the sanction list had been started on a regular basis since April 2019.
- iii. In context of Para 3(iii) regarding conducting Customer Due Diligence (CDD), review of existing customers and ongoing monitoring of entire customer base, AMIML stated that CDD review of existing customer database had already been initiated in November 2018. As a result of this exercise, high risk customers had been identified and their risk ratings had been updated in the unitholder system as per the requirements in AML Regulations. Furthermore, approval from senior management in respect of these customers had also been obtained.
- iv. In context of Para 3(iv), AMIML stated that it was in the process of re-ascertaining the risk rating of the existing customers and simultaneously updating the revised

risk rating in the unitholders system. AMIML expected the completion of CDD requirements for high-risk customers by December 31, 2019. AMIML further contended that since it had more than 98,000 customers as of April 2019, a detailed remediation exercise to complete the review of all customers requiring contacting the customers and collecting the required information was expected to be completed by June 2020.

- v. In context of Para 3(v), regarding justification for low risk customers, AMIML mentioned that the same was also a part of Al Meezan's AML Procedures. The procedure requires that before on-boarding a new client, the level of AML risk in the relationship must be assessed, the client must be identified and Customer Due Diligence (CDD) should be conducted. The customer must be assigned either a low, medium or high-risk category, on the basis of CDD. AMIML further stated that the customer's risk assessment form (CDD form) as specified in Annexure 3 of AML Procedures contained the requisite field. AMIML asserted that for existing customers, the process of filling out the forms along with narration of relevant justifications in the CDD forms under a remediation exercise for around 98,000 customers other than high-risk customers is expected to be completed by June 2020.
- vi. In context of Para 3(vi), regarding country head of sales as approving authority for high risk customers, AMIML stated that Regulation 2 (x) of AML and CFT Regulations, 2018 specifies that the word senior management includes, signifies that it is an inclusive definition and not an exhaustive/conclusive one. Therefore, in accordance with legal interpretation, the general understanding of the concept i.e. senior management would be in addition to the positions mentioned in the definition of senior management. AMIML was of the view that Head of Sales, although not being specifically narrated therein, reports directly to the CEO and is an integral part of the senior management. In case of absence of the department heads, the approval would be obtained from other members of the senior management. In the light of above, the Head of Sales is mandated to approve high risk customers emanating from Distribution Network of Al Meezan while Head of Marketing, Business Development and Alternate Distribution is authorized to approve high risk customers generated by its Direct Sales Network. In addition, other members of the senior management are also authorized to approve the high-risk customers in their absence.
- vii. With respect to Para 3(vii), regarding the customer's mailing address, AMIML mentioned that the subject client's mailing address was specified as care of relevant staff Al-Meezan's Peshawar branch, in the account opening form. His complete residential address was mentioned in the CNIC, which was furnished to the inspection team along with the account opening form. AMIML further stated that the investment in this account was made in March 2018 through proper banking channels, i.e., through his own bank account. The tax return for the year 2015 was obtained along with a copy of his job/service card in accordance with the AML

regulations. However, subsequent to the implementation of AML regulations, Al Meezan's AML Policies and Procedures, and subsequent review the customer was classified as 'High Risk' in November 2018 being a politically exposed person i.e. an MPA in KPK Assembly. AMIML further informed that as a matter of abundant caution, it had marked this account as unverified which is equivalent to a dormant account in a bank and is under ongoing monitoring within the meaning of Regulation 9(4)(c) of the AML and CFT Regulations.

- viii. With respect to Point 3(viii), regarding an instance of a trust account, in which list of members of the governing body/ trustees, respective CNICs/identification documents and an updated trust deed was not available in the record; AMIML confirmed that the updated trust deed had been provided to the inspection team while CNICs of the trustees had been obtained and submitted with the reply to the show cause notice.

6. The hearing in the matter took place on July 26, 2019 wherein Mr. Mohammad Shoaib, Chief Executive Officer, Mr. Salman Muslim, Head of Internal Audit and Mr. Eunas Viqar, Head of Compliance appeared on behalf of the Company. They reiterated the facts stated in the written reply. The Respondents further submitted that AMIML did not disagree with the allegations made in the show cause notice. However, the Company fully realized that it was not completely compliant with the AML and CFT Regulations, 2018 and was making its best possible effort to expedite remedial/rectification work in that direction. The CEO however asserted that due to large customer base, AMIML is expected to be fully compliant with the subject regulations by June 2020.

7. I have examined the facts of the case, considered the written responses along with documentary evidence placed on record and the arguments put forth by the Respondent Company. I am of the view that the arguments submitted by AMIML are not tenable on the following grounds:-

- a. AMIML has contended that due to absence of requisite mandatory documents in the investors records, it had started the practice of verification and recording of details in the unitholder system from December 2018. The deficiencies in the records in terms of mandatory documents, raises questions about the effectiveness of the compliance function and internal audit department. This leads me to believe that there were weaknesses in both the functions.
- b. The Company has submitted that the process of monitoring customers based on KYC had been initiated from December 2018. It is a concern that even six months after the issuance of AML and CFT Regulations, 2018 (i.e. issued in June 2018), AMIML had not initiated the process of verifying customers/ beneficial owners' identity. The AML and CFT Regulations, 2018 were effective immediately after their issuance and warranted that AMIML initiate the process at its earliest. A six month delay indicates weakness in responsiveness of the management.

- c. AMIML's argument relating to screening of signatories/directors/trustees of the client against the proscribed / sanctions list is not tenable. AMIML highlighted that screening of signatories/ directors/ trustees against the sanction list was started on a regular basis from April 2019. In the absence of requisite documents/information, as mentioned in the preceding paragraphs, the screening of unitholder database is rendered ineffective and does not serve the purpose/objective of screening of unitholders/ beneficial owners completely. The absence of such critical information is likely to expose the company to inefficient screening of its customers with SROs/notifications issued by NACTA/provincial governments/ Ministry of Foreign Affairs, etc.
- d. Arguments to points 3(iii) and 3(iv) of the SCN are accepted. AMIML's efforts towards conducting Customer Due Diligence (CDD), review of existing customers and ongoing monitoring of entire customer base since November 2018 shows its resolve to comply with Regulation 6 (10), Regulation 6(3) and Regulation 13(3) in particular, and AML and CFT Regulations 2018 in general.
- e. In context of argument provided at 3(v), it may be pointed out that the AML procedures of AMIML were approved on April 22, 2019, while the inspection began on April 15, 2019. The procedures had not been fully implemented, since there were instances in which the decision to rate a customer as low risk had not been justified in writing by AMIML; hence AMIML was found to be in violation of Regulation 11(2) of AML and CFT Regulations 2018.
- f. In respect of 3(vii) AMIML should have been more vigilant in opening high-risk customer accounts but should also have marked these accounts as high risk in their systems immediately. Despite the fact that the transaction was executed through banking channels, AMIML was required to conduct its own CDD/EDD. In fact, the particular case wherein client's mailing address had not been provided and had been specified as "C/O a staff member", there was disparity in the income and amount of investment and the client turned out to be a PEP, contained all the elements of a suspicious transaction. A more disciplined approach should have been adopted while managing high-risk customer accounts. The absence of recognizing such suspicious instances indicated that the staff was not adequately trained to comprehend the importance and need to conduct the EDD process adequately.
- g. It has been noted that with respect to the absence of documentation of a trust account narrated at 3(viii) above, the management had provided an updated list of trustees and the registration of the trustees with its reply to the letter of findings. A 1970 version of the trust deed was provided, contrary to the claim of AMIML regarding provision of an updated trust deed. Moreover, CNICs of the trustees and their Verisys were not available in the unitholder record, as highlighted by the inspection

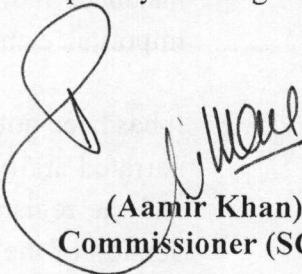
team. Although copies of the CNICs of the trustees have been submitted with the reply to the show cause notice, no evidence of their Verisys has been provided.

8. It is hence concluded, that the AMC is responsible for the acts and omission of all persons to whom it may delegate any of its functions. Therefore, the instances wherein employees have shown weakness in performing their responsibilities is in fact a failing of the AMIML. In my opinion, AMIML needs to take cognizance of existing procedures and systems and take steps to improve and strengthen its operational procedures and systems including comprehensive training programs for its staff. AMIML 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.

9. Based on my observation at para 7 and 8 above, I am of the considered view that leniency on non-compliance towards requirement of Regulation 2(x) (read with Regulation 9(4)(a), Regulation 6(4), Regulation 6(5)(a), Regulation 7(1) and 7(2), Regulation 10(3) read with Regulation 9(4)(b) and (c), and Regulation 11(2) of AML and CFT Regulations 2018, is not possible since SECP is responsible for ensuring implementation and enforcement of the applicable regulatory framework by the entities that fall under its regulatory ambit. However, I am willing to take a lenient view with respect to requirements of Regulation 6(10), Regulation 6(3) and Regulation 13(3) of AML and CFT Regulations 2018, since AMIML has depicted its resolve and efforts towards compliance of these specific regulations since November 2018. Therefore, I hereby conclude the proceedings initiated under section 40A of the SECP Act, 1997 by imposing an aggregate fine of Rs.200,000 (Rupees two hundred thousand only) on the Respondent.

10. 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.

11. 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:  
August 5, 2019 at Islamabad.