



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION

NO. SCD/AMCW/Adj/22/2018/240  
Before Commissioner (SCD)

**In the matter of Show Cause Notice issued to Al-Meezan Investment 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:

Al-Meezan Investment Management Limited

- i. Mr. Mohammad Shoaib, Chief Executive Officer
- ii. Mr. Salman Muslim, Head of Internal Audit and Compliance

Assisting the Commissioner (SCD)

- i. Mr. Imran Inayat Butt, Executive Director
- ii. Mr. Muhammad Jahangir, Joint Director
- iii. Mr. Wazirzada Yasir A. Khan, Deputy Director

**ORDER**

This Order shall dispose of proceedings initiated against Al-Meezan Investment Management Limited (the "Company" or the "AMC") through Show Cause Notice (the "SCN") bearing No. SCD/AMCW/ADJUDICATION/AMIML/184/2018 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 the Company did not obtain sufficient documentation which included copy of CNICs of account holders, clear identifiable sources of income and financial statements of its customers having Customer ID 100180, 105628, 101366 and 163364 resulting in non-compliance with the Regulation 6(3) (c), 6(4), 9(1), 9(4) (b) of Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML & CFT Regulations) and clause 2(a), 4 (a) of Circular 12 of 2009.

3. Consequently, SCN dated November 16, 2018 was issued whereby the AMC 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 non-compliances and an opportunity of hearing was granted on November 30, 2018.



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4. In response to the said SCN, the Company through its written reply dated November 23, 2018 submitted as under:-

- i. Regarding Customer ID 100180 and 105628 initial investment and subsequent investments were derived from inheritance/savings.
- ii. Customer ID 101366 is maintaining account with the AMC since 2004. He is a businessman based in Kuwait and the market value of his investment includes a significant amount of appreciation, dividend and bonus over a period of almost 14 years.
- iii. In addition to the above, the Company also provided following documents:
  - a. Copy of CNIC of joint account holder pertaining to Customer ID 100180;
  - b. Copy of CNIC of joint account holder in case of Customer ID 101366;
  - c. Financial statements of Customer ID 163364 for the year ended June 30, 2017;

5. Hearing in the matter was held on November 30, 2018, which was attended by Mr. Muhammad Shoaib, Chief Executive Officer along with Mr. Salman Muslim, Head of internal Audit and Compliance ("the Respondents"). During the course of hearing, the Respondents made submissions mainly reiterating the earlier written stance of the AMC. The Respondents also mentioned that when they had initially submitted the requisite documents to the SECP's inspection team, the inspection team neither sought further clarification nor gave an opportunity to explain the breaches/violations of the regulatory framework. Customer-wise clarification/comments submitted by the Respondents are as under:-

i. **Customer ID 100180 and 105628**

Customer ID 100180 and 105628 are unitholders of the AMC since 2003 and 2007 respectively, therefore, considering the length of investment and association with the Company, their credentials are well known to the management. The source of income of these customers is primarily inheritance/ savings and their initials and subsequent investments were derived from inherited property. Due to long relationship of the management with both the customers, the Company did not feel any need of enhanced due diligence and resultantly classified them as low risk customers.



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The Respondents further stated that they had already submitted copy of the CNIC of joint account holder with Customer ID 100180 along with their earlier written response. The joint account holder is also separate unit holder of the AMC. It was further argued by the Respondents that Circular No 12 of 2009 and AML & CFT Regulations, 2018 do not require mandatory classification of housewives as high risk customers.

ii. **Customer ID 101366**

He is the customer of the AMC since 2004. The market value of his investment amounting to Rs.458 million as of August 15, 2018 includes a significant amount of gain, dividend and bonus over a period of 14 years. It was also stated by the Respondents that they had already submitted copy of the CNIC of joint account holder along with the earlier written response of the Company.

iii. **Customer ID 163364**

The customer is a reputable institution, which was incorporated in 1988 under the Voluntary Welfare Agencies Ordinance, 1961. It was further added by the Respondents that the relevant resolution of the trustees and constitution documents were obtained at the time of account opening and were also provided earlier. However, audited financial statements for the year ended June 30, 2017 of the customer have been submitted with their written reply. As per the audited financial statements, the net worth of the customer was around Rs. 700 million as on June 30, 2018 and its investment with the AMC was also appearing in the said financial statements.

During the hearing, the Respondent's attention was drawn towards Clause 6 of Circular No. 12 of 2009 which clearly requires that the Customer Due Diligence/Know your Customer is not a one-time exercise and to be conducted at the time of entering into formal relationship with the customers as it is an ongoing process. The Respondents were also informed that the SCN primarily contains all observations of the inspection team therefore opportunity has been provided to the Company to explain its view point. The Respondents were also advised that complete reconciliation of the accounts of Customer ID 100180, 105628 and 101366 since the opening of their respective accounts in terms of principal investment and gains shall be provided. In case of Customer ID 100180, additional information was also sought to identify the persons who made their investments through this account.



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6. The Respondents through their letter dated December 10, 2018 provided following further information to substantiate their earlier written response and the stance taken during the course of hearing. The analysis of the documents further submitted by the AMC reveals that:

- a. The joint account (Customer ID 100180) was opened on August 8, 2003 with an initial investment of Rs. 6 million. The total amount appearing in this account includes considerable amount of gain coupled with subsequent investment over a long period of time. It was also mentioned that the third party cheques under scrutiny were supplemented with the letters signed by the cheques issuers and subsequent confirmations were also sought against these investments by the Company. Further, the customer upon the demise of her father inherited substantial assets in the form of prize bonds, gold and bank balances which are the major source of her investment with the AMC. Additionally, the Company also provided photocopy of the registered sale deed of the immovable property owned and subsequently sold by the customer for Rs. 134 million. It was mentioned by the AMC that out of the said sale proceeds, some amount was invested by the customer with the Company. It was also emphasized by the Company that the customer is maintaining a joint account with her brother who is a doctor by profession and working with a famous hospital in Karachi for the last 21 years so this customer account may not be termed as housewife account only.
- b. The account having Customer ID 105628 was opened in 2007 and at that time, the initial investment was Rs. 19 million which mainly increased due the increase in value of units over a period of 11 years. It has also been stated by the AMC that the customer's husband inherited substantial assets on the demise of his father and has invested some of these funds in his wife's account.

7. I have examined the facts of the case, relevant regulatory requirements and the arguments put forth by the Respondents during the course of hearing and through their written responses dated November 23, 2018 and December 10, 2018. It has been observed that the AMC submitted majority of the requisite documents after initiation of the adjudication proceedings. I am of the view that these documents should have been readily available with the AMC in accordance with the requirements of the regulatory framework.



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8. In view of the fact that the Company has now managed to provide majority of the requisite documents, therefore, the Company is strictly warned to ensure compliance of the regulatory framework on an ongoing basis. I am not imposing any penalty this time with the premise that the Company shall review its systems and controls to avoid happening of such non-compliances in future. It is also important to mention that future non-compliances, if any, shall be dealt with in accordance with the enforcement action(s) as provided in law.

9. During the adjudication proceedings, I found the Company to be unaware of its clear obligations towards AML/CFT, therefore, I consider it necessary to direct the AMC to arrange appropriate training programs for its concerned employees. In this regard, I would like to draw AMC's attention towards the Guidelines issued by the Commission to supplement the AML & CFT Regulations. These Guidelines help Regulated Persons in better understanding the AML/CFT responsibilities and establishing an effective AML/CFT regime.

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

**(Shauzab Ali)**

Commissioner (SCD)

**Announced: January 1, 2019 at Islamabad**