

Before Amir M. Khan Afridi, Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Ayub Chaudhary Investments (Pvt.) Limited

Dates of Hearing

June 18, 2021

Order-Redacted Version

Order dated March 18, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of Ayub Chaudhary Investments (Pvt.) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated April 05, 2021.
2. Name of Respondent	Ayub Chaudhary Investments (Private) Limited (the Respondent)
3. Nature of Offence	Alleged contraventions of <u>regulation 4(a), 13(7), 15(3), 6(3)(c), 13(1), 13(4), 3(1) and 6(4) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (the AML Regulations) read with Section 40(A) of the Securities and Exchange Commission of Pakistan, 1997 (the Act).</u>
4. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have gone through the facts of the case, the written and oral submissions of the Respondent, material available on record and the applicable legal provisions and observed that:</p> <p>i. With regard to screening of joint account holders, authorized signatories etc. the Respondent could not produce evidence of database of joint account holders and authorized signatories at the time of inspection which indicated that the Respondent could not identify proscribed persons from joint account holders, and the authorized signatories. in absence of such database. The Respondent during the hearing submitted that they are using LSE financial Ltd.'s software SSS- Smart Stock System which is providing effective screening mechanism of complete customer database. However, the Respondent failed to produce evidence regarding screening conducted by it of its client at the time of inspection. In response to the said</p>

observation, the Respondent subsequent to the hearing provided evidence of SROs maintained by it in an excel sheet, however, no evidence of database of proscribed persons and designated persons was produced. The Respondent provided evidence of screening of its clients against SROs dated back to October, 2019 however, in the absence of database of authorized persons and the authorized signatories, the screening was deficient.

In view of the above, the Respondent has contravened regulation 4(a), 1 3(7) and 15(3) of the AML Regulations.

- ii. With regard to the observation regarding on-going monitoring of client accounts and one (1) instance highlighted by the inspection team, the Respondent could not furnish satisfactory response. The Respondent had failed to provide evidence of source of income/ funds of one client who deposited Rs.5.380 million during the period from July to December, 2019. The said instance indicate that the Respondent did not have an on-going monitoring system in place to match client's transactions with their level of income.

The Respondent has thus, contravened regulation 6(3)(c), 13(1) and 13(4) of the AML Regulations as evident from he said instance.

- iii. With regard to the ten (10) instances as mentioned in the SCN, the Respondent provided evidence of source of income/ funds of certain clients however, it was observed that the requisite documentation was obtained subsequent to the review initiated by the inspection team. It may be noted that the said documents were also submitted with the inspection team however, the documents were insufficient with respect to employment/ source of income of clients. The clients' accounts were also examined by the inspection team wherein, it was observed that the clients had deposited significant amounts in their respective client accounts however, the Respondent did not collect evidence of source of funds.

Keeping in view the number of instances and the deficient CDD measures as observed during the inspection, the Respondent has contravened regulations 3(1)(b), 6(3)(a)(c) and Annexure I of regulation 6(4) of the AML Regulations.

- iv. With regard to the NADRA Verisys of its clients, the Respondent submitted that they have to verify photocopies of

	<p>documents through NCCPL which is performing KYC process and PSX has the system to verify CNICs of clients/ nominees and joint account holders. Further, the Respondent during the hearing also admitted that they did not have a Verisys system at the time of inspection however, now they have acquired the Verisys system and is conducting Verisys of all its clients.</p> <p>It is pertinent to mention here that it is the responsibility of the regulated person to validate the identity documents from NADRA Verisys. Therefore, the Respondent needed to be aware of the requirement of the AML Regulations. Thus, the Respondent has contravened note(i), Annexure I of regulation 6(4) of the AML Regulations as observed at the time of inspection.</p> <p>Therefore, in terms of the powers conferred under Section 40A of the Act, I hereby impose penalty of Rs. 500,000/- (Rupees Five Hundred Thousand Only) is hereby imposed on the Respondent</p>
5. Penalty Imposed	Rs. 500,000/-
6. Current Status of Order	Penalty not deposited and No Appeal has been filed by the respondents.