

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

In the matter of Show Cause Notice issued to Dawood Equities Limited

Dates of Hearing

November 22, 2021

Order-Redacted Version

Order dated May 24, 2022 was passed by Director/Head of Department (Adjudication-I) in the matter of Dawood Equities Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated August 02, 2021.
2. Name of Respondent	Dawood Equities Limited (the Respondent & the Company)
3. Nature of Offence	<u>Alleged contraventions of regulation 4(a), 4(c), 6(3)(c), 6(4), 7(1)(b), 9(4)(b), 13(7) and 13(7) of the Securities & Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the AML Regulations) read with Section 40A of the Securities & Exchange Commission of Pakistan Act. 1997 (the Act).</u>
4. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have considered the facts of the case, the written and oral submissions of the Respondent and material available on record in light of the applicable legal provisions and observed that with regard to the:</p> <p>i. screening of proscribed persons/ Individuals against the database of customers and their associated individuals, the inspection team provided that evidence of reporting of updated status of proscribed persons to the Commission was made available. However, database of only two corporate clients and screening of only 4 UINs were provided wherein details regarding such UINs were not mentioned whether they were main account holder/ nominees authorized persons etc. Moreover, no evidence was provided in relation to a comprehensive database for related persons of its clients such as joint account holders. nominees, authorized persons etc. and their screening in the UNSC and NACTA lists. Further. the inspection team inquired regarding screening of two new</p>

accounts which were opened during the review period for which the Respondent provided the requisite evidence however, it was observed that the screening evidence was Provided after the interview held by the inspection team with the compliance) officer. The Respondent was therefore, found in contravention of regulation 4(a) and 13(7) of the AML Regulations.

- ii. Deficiencies in its AML/CFT policy as mentioned in the SCN, the Respondent during the inspection provided revised draft policy which was not approved by the Board at that time. Moreover, the draft policy was also not updated as it did not cover the following areas:
 - a. Screening of beneficial owner, joint account holder, nominee, trustee and office bearers;
 - b. Identification of clients belonging to Porous Border/ Afghan Refugees/ diaspora;

In view of the above, the AML/CFT policy was found to be deficient therefore, the Respondent was found in contravention of Regulation 4(a) of the AML Regulations. Further, the compliance officer of the Respondent only provided an overall regulatory framework checklist to the inspection team which did not comprehensively cover the areas pertaining to AML/CFT regulations and guidelines. Hence, compliance officer of the Respondent was also found in contravention of regulation 18(c)(ii) and (iii) of the AML Regulations.

- iii. validation of identity documents, the Respondent submitted that it has now verified all CNICs from NADRA Verisys and the same was also provided to the inspection team. However, during the inspection it was observed that the Respondent had not validated CNICs/ NIcop of the clients, their nominees, authorized persons and Board of Directors of corporate clients. the Respondent at the time of inspection provided that these accounts were opened before implementation of requirement of NADRA Verisys and they were in the process of complying with the requirements of the AML Regulations. The Respondent could not furnish evidence of NADRA Verisys of sample clients at the time of inspection and was therefore, found in contravention of note (i) of Annexure1 of regulation 6(4) of the AML Regulations.

- iv. incorrect risk categorization and EDD of its clients, the inspection team obtained CDC set up reports and noted that 135 customers of the Respondent belong to high-risk

jurisdiction/geographical locations, wherein 9 clients were rated as low risk and 123 clients were categorized as medium risk. The Respondent submitted that they have now marked all these clients as high-risk subsequent to the observation highlighted by the inspection team. However, at the time of inspection, the Respondent was found in contravention of regulation 4(c) and 6(8) of the AML Regulations.

- v. source of income/ funds of 4 clients as mentioned in the SCN, the Respondent submitted that it has already provided the requisite evidence to the inspection team. However, in the inspection report, it was observed that the Respondent has only provided tax return in the matter of one client whereas the KYC/CDD checklist of the same client was found to be undated. Further, for the remaining 3 clients, the Respondent failed to provide satisfactory evidence to ascertain the source of income/ funds. The Respondent has contravened the provisions of regulation 6(3)(c) of the AML Regulations.
- vi. one instance of a high-risk client, the Respondent only provided tax return however, the KYC/CDD checklist of the client was undated and the observation was highlighted by the inspection team. Due to incomplete KYC/CDD documentation, the Respondent was found in contravention of regulation 9(4)(b) of the AML Regulations.
- vii. one instance of incorrect risk categorization, the Respondent provided that the client is a business man abroad however, it was observed by the inspection team that all payment deposited in his account was through a bank account maintained in Pakistan. As per the inspection team, the client was to be categorized as a high-risk customer. The Respondent failed to provide justification for categorizing a non-resident Pakistani as low-risk and therefore, was found in contravention of regulation 6(8) of the AML Regulations.
- viii. One instance wherein the respondent of incomplete documentation. The Respondent failed to provide any evidence of source of income/ funds of the client to the inspection team. The respondent therefore, was found in contravention of regulation 15(3) of the AML Regulations.
- ix. Two instances of corporate clients, it was observed that the Respondent had failed to provide KYC/CDD for directors/ beneficial owners/ authorized persons etc. Further, approval date on the KYC/CDD checklists for the clients was not

	<p>mentioned. Moreover, in one instance, the Respondent also failed to provide source of income/ funds of the directors and the requisite evidence was not provided. Due to incomplete KYC/CDD documentation, the Respondent was found in contravention of Regulation 7(1)(b) of the AML Regulation.</p> <p>Therefore, in terms of the powers conferred under Section 40A the Act, penalty of Rs. <u>350 000/- (Rupees Three Hundred and Fifty Thousand) only</u> is hereby imposed on the Respondent.</p>
5. Penalty Imposed	Rs. 350,000/-
6. Current Status of Order	Penalty not deposited and No Appeal has been filed by the respondent.