



Before Commissioner (SCD)

In the matter of Show Cause Notice issued to HBL Asset 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

Dates of hearing:

December 06, 2018 &  
January 24, 2019

Present:

HBL Asset Management Limited

- i. Mr. Farid Ahmed Khan (Chief Executive Officer)
- ii. Mr. Mubeen Ashraf Bhimani (Head of Compliance)

Assisting the Commissioner (SCD)

- i. Mr. Muhammad Jahangir (Joint Director)
- ii. Ms. Zonish Inayat (Deputy Director)

ORDER

This Order shall dispose of proceedings initiated against HBL Asset Management Limited (the "Company" or "HBL AML" or "AMC") through Show Cause Notice (the "SCN") bearing No. SCD/AMCW/ADJ/HBLAML/183/2018 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 a limited scope inspection of the Company was ordered under Section 282I of the Ordinance vide inspection order bearing number SCD/S&ED-IW/HBLAMC/2018/32 dated August 27, 2018 to review compliance with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML & CFT Regulations") and Circular 12 of 2009.

3. Based on inspection findings, SCN dated November 16, 2018 was issued whereby the Company 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 irregularities and an opportunity of hearing was granted on November 30, 2018.

4. The Company vide letter dated November 19, 2018 sought extension in time for written response and requested to reschedule the date of hearing. The Commission vide letter dated November 29, 2018 acceded to the request of the Company by granting extension in time till November 30, 2018 for written response and the hearing was rescheduled for December 06, 2018. The Company submitted response through letter dated November 28, 2018 along with copy of the following documents:

- a. NADRA verification in respect of CNICs of authorized signatories of Folio No. 7995 ("Client A");
- b. Account opening form, FBR Taxpayer Online Verification, copy of passport, NADRA Verification, bank account statement and a clipping of newspaper in respect of Folio No. 16836 ("Client B").
- c. Account opening form, FBR Taxpayer Online Verification, NADRA Verification, Screenshot of profile as member of Board of Directors of a private limited company of Folio No. 16646 ("Client C").
- d. Account opening form, CNICs of authorized signatories and NADRA verification, FBR Taxpayer Online Verification and account statement of Folio No. 18376 ("Client D").



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- e. Account opening form, CNICs of authorized signatories, certificate of registration, FBR Taxpayer Online Verification, bye-laws and financial statements of Folio No. 13279 ("Client E").
- f. Account opening form, CNICs of authorized signatories, FBR Taxpayer Online Verification, bye-laws and financial statements of Folio No. 18816 ("Client F").

The response submitted by the Company has been summarized below:

S. No.	Client	Details
1.	Client A	The AMC obtained Memorandum of Association of the Client A which provides its business profile. The prevalent laws does not define any criteria to classify a client as High Risk based on the amount of investment, hence, Enhanced Due Diligence ("EDD") was not performed.
2.	Client B	Professional background of the client was independently verified. The AMC has also obtained copy of Share Purchase Agreement for the sale of Client's 2,350 shares of a private limited company amounting to Rs. 1,797 million which gives reasonable assurance with respect to source of funds.
3.	Client C	He is a member of Board of Directors of a private limited company. The account was marked as "High Risk" on Account Opening Form by the AMC due to unavailability of salary slip/wealth statement. However, the said client was erroneously marked Low Risk in the system. HBL AML did perform EDD for this account by counter checking the provided information and also obtained the NTN Certificate from the client and ran a check on it.
4.	Client D	Client D is a trust and the AMC believes that as per AML/CFT Regulations 2018, provision of financial statements is not required in case of Trust accounts. However, all other documents have already been obtained from the client.
5.	Client E	HBL AML has obtained all the remaining/required documents from the client. The NADRA verification was missed by the AMC initially and has been subsequently performed.
6.	Client F	All the mandatory documents have been obtained.
7.	Folio No. 17353 ("Client G")	He is a well-known landlord and owns several agricultural lands in Badin - Sindh. HBL AML obtained one of his owned agricultural land document as a source of income. The AMC only checked/verified the name of client from UNSC list before opening an investment account. This resulted in "No Match Found" from the said list and due to this, HBL AML was unable to identify and mark the client as "PEP".

5. During the course of hearing held on December 6, 2018, Mr. Farid Ahmed Khan, Chief Executive Officer along with Mr. Mubeen Ashraf Bhimani, Head of Compliance ("the Respondents") made the following submissions mainly reiterating the earlier written stance of the AMC:

- i. Requisite documents were initially submitted to the SECP's inspection team however, the inspection team neither sought any clarification nor gave an opportunity to explain the breaches/violations of the regulatory framework.
- ii. During hearing, the Respondents were apprised about the necessity of diligently conducting the KYC/CDD process while entering into formal relationship with any investor. The Respondents were informed that transferring money from a Bank account to a Company's account may not be a reliable mean of identifying the source of funds of a customer and in no way it absolves the Company of its responsibility to carry out necessary checks and balances, in accordance with the



requirements of the prevailing regulatory framework. The onus of conducting a thorough KYC/CDD process falls entirely on the Company itself.

- iii. Further, the Respondents' attention was drawn towards Clause 6 of Circular No. 12 of 2009 which requires that Know Your Customer/Customer Due Diligence ("KYC/CDD") is not a one-time exercise but an ongoing process. The Respondents were also informed that the SCN primarily contains all observations of the inspection team, therefore, an opportunity has been provided to the Company to explain its view point. The Respondents were also advised that complete documentation highlighting evidence of source of funds of abovementioned clients should be submitted.

5. In light of the above, the Respondents through their letters dated December 18, 2018, January 14, 2019 and emails dated December 20, 2018 and December 24, 2018 provided the following documents:

- a. Client A - Audited financial statements for the year ended June 30, 2018 and evidence of incorporation of the company.
- b. Client B - Copy of bank statement and Share Purchase Agreement.
- c. Client C - Bank account statement and audit certificate.
- d. Client D - Audited financial statements of the promotor company, CNICs of all authorized signatories along with NADRA verysis
- e. Client G - Bank account statements.

6. The analysis of the aforementioned documents submitted by the Company reveals that:

- a) Client A- Net worth of the company is Rs. 863 million. Moreover, the investment of Rs. 209 million is also appearing in its audited financial statements for the year ended June 30, 2018.
- b) Client B, C, E and F- Evidence provided regarding sufficiency of funds for the purpose of making investment;
- c) Client D - Financial statements of the promotor company showed equity of Rs. 1,323 million as on June 30, 2017. Two of the directors of the promotor company are trustees including chairman of the trust.
- d) Client G- Insufficient documents submitted to correspond with the investment amount. EDD should have been conducted and correct risk categorization should have also been made at the time of account opening.

7. Subsequently, another hearing in the matter was held on January 24, 2019 to re-hear the matter in its entirety due to change in the adjudicating authority. The said hearing was again attended by the same persons who attended the earlier hearing dated December 6, 2018. During the course of hearing dated January 24, 2019, the Respondents stated that the Company is in process of upgrading its systems and control procedures to bring these in line with the newly introduced requirements under the AML & CFT Regulations. They further mentioned that the Company has conducted EDD of the customer's accounts according to the then prevailing requirements as the accounts were opened before promulgation of the AML & CFT Regulations. During the course of hearing, the Respondents were asked to share internal policy of the Company regarding AML/CFT and details regarding EDD were also sought.

8. In light of the above, the Company through email January 28, 2019 provided the following documents:

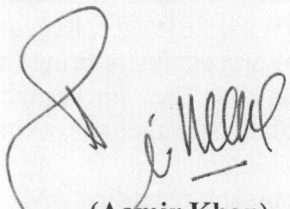
- a) Board of Director's approved Know Your Customer (KYC)/Customer Due Diligence (CDD) Policy of the Company;



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- b) Evidence of EDD conducted by HBLAMC regarding the customers named in the SCN; and  
c) List of high risk investors on which web search for adverse media is performed by HBL AML.
9. The perusal of the above documents submitted by the Company reveals that the Company is still in process of upgrading its KYC/CDD policy. As far as EDD is concerned, the Company provided a list of cases wherein EDD was conducted on the basis of web media search.
10. I have examined the facts of the case, written responses submitted along with documentary evidences, arguments put forth by the Respondents during the course of hearings and the relevant regulatory requirements. I am of the view that the Company failed to obtain the requisite documents from the clients at the time of account opening and thereafter on an ongoing basis. In accordance with the AML/CFT regulatory framework, necessary documents should have been readily available with the Company during the course of inspection. Contrary to that the Company submitted documents after initiation of the adjudication proceedings.
11. In view of the fact that the Company has now managed to provide majority of the requisite documents and is in process of updating its internal policy regarding KYC/CDD, therefore, I am not imposing any penalty this time and the Company is, hereby, warned to ensure strict compliance of the regulatory framework in future. The Company is, hereby, directed to conduct comprehensive training program for its concerned employees to better understand the regulatory requirements concerning AML/CFT.
12. Further, I also consider it necessary to highlight that the process of EDD is not limited to a prescribed documentary form rather it includes implementation of appropriate internal risk management systems, policies, procedures and controls to determine if any customer presents high risk of money laundering/terrorist financing. In accordance with the prevailing regulatory framework for AML/CFT, the Company shall, in case of EDD, obtain approval from senior management to establish or continue business relations with high risk customers; establish the sources of wealth and/or funds or beneficial ownership of funds and carry out enhanced monitoring of business relations, amongst other things.
13. This Order is 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: February 8, 2019 at Islamabad**