



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Adjudication Department

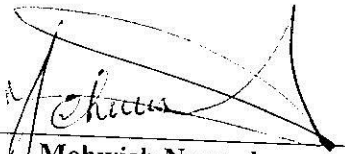
No. 1(169)SMD/ADJ/KHI/2019

September 03, 2019

IGI Finex Securities Limited
Through its Chief Executive Officer
701-703, 7th Floor, The Forum
G-20, Khayaban-e-Jami, Clifton
Karachi

SUBJECT: Order in Respect of Show Cause Notice dated June 17, 2019 Bearing Number No. 1(169)SMD/ADJ/KHI/2019

Please find enclosed herewith a copy of an order in the subject matter for your record and necessary action.


Mehwish Naveed
Management Executive



Securities and Exchange Commission of Pakistan
Securities Market Division

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to IGI Finex Securities Limited

| | |
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| Date of Hearing | July 05, 2019 |
| Present at the Hearing | i. Syed Raza Hussain Rizvi (Chief Executive Officer) |
| Representing IGI Finex Securities Limited | ii. Mr. Ali Ahmed Noor iii. Mr. Shahzeb Haider iv. Mr. Faraz Ullah Khan v. Mr. Fahad Azeem |

ORDER

This Order shall dispose of the proceedings initiated through the Show Cause Notice bearing No. 1(169) SMD/ADJ/KHI/2019 dated June 17, 2019 (“SCN”) issued to IGI Finex Securities Limited (“Respondent”) by the Securities and Exchange Commission of Pakistan (“Commission”) under section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the “Act”).

2. Brief facts of the case are as follows:

- (a) The Respondent is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (“PSX”) and licensed as a securities broker under the Securities Act, 2015.
- (b) An inspection conducted by the Commission revealed that the Respondent was non-compliant with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (“AML Regulations”). Keeping in view that the AML Regulations were new at the time of inspection, Commission ordered to conduct a follow up review (“Review”) to assess the Respondent’s compliance with the AML Regulations.
- (c) The Review, *inter alia*, revealed the following:
 - i. The Anti Money Laundering/Know Your Customer (AML/KYC) policy was not updated so as to meet the requirements of the AML Regulations in contravention of Regulation 4(a) of the AML Regulations which requires that a regulated person shall develop and implement policies, procedures and controls, which are approved by its board of directors, to enable the regulated person to effectively manage and mitigate the risks that are





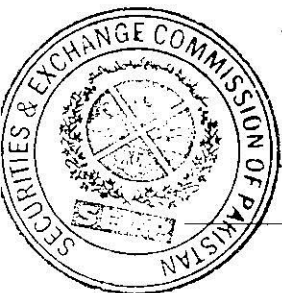
Securities and Exchange Commission of Pakistan

Securities Market Division

- identified in the risk assessment of ML/TF or notified to it by the Commission.
- ii. The Respondent had not obtained documents as required under Regulation 6(2) [Annexure I] including NADRA verisys, certified copies of Memorandum & Articles of Association, certificate of incorporation and identity documents etc. of seven (7) of its clients.
 - iii. The Respondent had not performed CDD of one of its client in terms of monitoring its transactions to ensure the transactions being conducted are consistent with its knowledge of its customer and updating its record to take prompt action when there is unusual activity, *pima facie*, in violation of Regulation 6(3).
 - iv. The Respondent had not obtained approval of its senior management to establish or continue business relationship with three (3) of its clients that were identified as high risk, *pima facie*, in violation of Regulation 9.
 - v. Regulations 14 requires a Regulated person to comply with the provisions of Anti Money Laundering Act, 2010 (AML Act). In accordance with the AML Act, Suspicious Transaction Report (STR) should be filed with the Financial Monitoring Unit (FMU) not later than seven working days after forming the suspicion. The Respondent had not filed STR within stipulated time period of seven days despite forming suspicion in case of one (1) client. Moreover, the Respondent had not documented the reason of its decision to file STR or not in case of one (1) client.
 - vi. The Respondent did not have a mechanism for ongoing monitoring of its clients in contravention of Regulation 13 which requires that all business relations with customers shall be monitored on an ongoing basis to ensure that the transactions are consistent with the regulated person's knowledge of the customer. Moreover, the Respondent had not documented the basis of revision of risk category of its 311 clients.

3. It appeared from the above that the Respondent *pima facie* acted in contravention of the AML Regulations. Accordingly, the Commission took cognizance of the aforementioned facts and served the SCN. The Respondent vide letter dated June 26, 2019 made following submissions.

- i. *With regard to Para 3(a) of the SCN, it is not correct that the KYC/CDD/AML/CFT/PF policy ("Policy") of the Respondent has not been updated. The Policy has been duly updated from time to time whenever required and no item was left out. The Policy and procedures of the Respondent approved by the Board of Directors enables the Respondent to effectively manage and mitigate the risks identified in the risk assessment of ML/TF and simultaneously covers the requirement of clause 4(a) of Anti Money Laundering and Counter Financing of Terrorism Regulations 2018. A few of the major features of the Policy which addresses the risk mitigation for ML/TF are as follows:*





Securities and Exchange Commission of Pakistan Securities Market Division

- *Part 4: Customer Identification (Pg 3 of the Policy).*
This identifies the various risk factors which, if present, would prohibit the Respondent from establishing a business relationship with a new/prospective customer. The key aspects here include checking the source of funds, ensuring that the client is not on UNSC Sanctions List and ensuring that valid identity documents are available.
- *Part 7 (a): Risk Assessment — Higher Complexities*
This lays down the factors which need to be considered on an on-going basis by the dedicated risk officer to ensure that customer relationships are monitored against the set parameters to identify any potential ML/TF risks.
- *Part 12 -Customer Due Diligence*
This lays down examples of activities which would raise 'red flags' and mark transactions as suspicious along-with prescribing the course of action to be followed. The entire Annexure 5 gives various such examples which, if triggered, would raise a 'red flag'.
- *Part 20— Sanctions*
This part lists down a clear and unambiguous restriction on the Company from establishing or continuing any relationship with a person if the person is on any sanction or prohibition list. This includes UNSC Sanctions list as well as other list prescribed under the Anti-Terrorism Act, 1997. These lists are updated regularly as soon as there is any change to the same by the prescribing authority.

The above is just an indicative list of the various methods and procedures in place at the Respondent to counter the risks associated with ML/TF. The above list is just for illustration purposes, and by no means exhaustive.

- ii. *With regard to Para 3(b) of the SCN, please rest assured that the Respondent has always been applying CDD measures when establishing business relationship with a customer and also obtaining customer identification in true letter and spirit not only to comply with the requirement of AM L/CFT Regulations, 2018, but also for the Respondent's own protection. As the Honorable Commission would already know through its reviews, there are more than 8,000 registered UIN of the Respondent whose NADRA verification is now required to be done under the AML/CFT Regulations 2018. Despite the huge number, the Honorable Commission requested NADRA verification for just 11 cases vide its Letter, out of which 7 cases depicted that NADRA verification had already been done by the Respondent prior to commencement of follow-up review, which fact was duly communicated and shared with the inspection team. In remaining few cases, NADRA verification was in process at that time. Subsequently, NADRA verification for these remaining 4 persons have also been completed, evidence of which has already been submitted to the Honorable Commission vide our letter dated 13th May, 2019. A copy of our letter dated May 13, 2019 is attached as Annexure 3 to this letter. Additionally, we would like to submit that the Memorandum and Articles of Association of two corporate accounts were available with the Respondent even before the follow up review. The process for obtaining of certified copies has also been initiated, but the representatives of the Respondent (who have been making efforts to obtain the same from the CRO Office Karachi) are facing difficulties in obtaining these documents. Nonetheless, it is expected that we shall complete this exercise shortly. We hereby confirm that in the future, we shall ensure to obtain certified true copies of incorporation and constitutive documents of corporate customers at the time of commencement of business relationship.*

The Respondent genuinely believes that the activity in the pertinent customer's account is in line with income details available with the Respondent. The customer is an employee of a group company, where his monthly salary is PKR 90,000/-. The monthly deposits in the trading account of the pertinent customer is less than his monthly income as per the details





Securities and Exchange Commission of Pakistan

Securities Market Division

shared and available with the Respondent. Further, the customer has been dealing with the Respondent since the last 2 years, and upon monitoring of the customer's account and trading pattern, no unusual activity or suspicious activity which would be beyond the means of the customer could be identified. Therefore, the Respondent truly believes that further due diligence measures were not required in this specific case. A copy of the customer's trading account ledger and evidence of salary are attached at Annexure 4 to this letter.

- iv. With respect to Para 3(d) of the SCN, the Respondent would hereby like to assure and confirm that enhanced due diligence is carried out for each and every person who is classified as high risk. Amongst other compliances and procedures, approval from senior management is also sought for each and every instance where an individual is classified as high risk. This review and due diligence is carried out at the time of account opening as well as during the business relationship with the customer in accordance with Regulation 13 of AML Regulations, 2018. In the instant case, the Respondent, vide its letter no. Comp/18-1/2019 dated May 13, 2019, provided a comprehensive list of all the approvals which were sought for each high risk customer in Annexure 37 of the said letter. The highlighted names are appearing at serial nos 296, 297 and 228 of Annexure 37 of our letter no. Comp/18-1/2019 dated May 13, 2019. The Respondent hereby submits that it is fully compliant of the AML Regulations 2018. A copy of our letter dated May 13, 2019 is attached at Annexure 3 of this letter.
- v. With respect to Para 3(e) of the SCN, it is humbly submitted that the Respondent maintains stringent procedures relating to ongoing monitoring of its clients. The Respondent is managing more than 3,500 active clients at its brokerage house and manages risks associated with trading and clients' ongoing due diligence on daily basis particularly on assigned risk basis. The Respondent would like to inform the Honorable Commission that the Respondent is active in follow-up with all its customers in obtaining information regarding activity in trading account if and when any activity is identified which does not conform to the customer profile. The Respondent has filed 10 STRs till date. There was just one case of where a time lag was observed between the trading activity and filing of the STR mainly due to the fact that the customer took a lot of time in sharing the requisite information. However, STR of the same client has already been filed by on 3 June 2019. The evidence of filing STR is attached at Annexure 5 to this letter.
- vi. With respect to Para 3(f) of the SCN, it is humbly submitted that it is not correct that the Respondent does not maintain procedures relating to ongoing monitoring of its clients. The Respondent is managing more than 3,500 active clients at its brokerage house and manages risks associated with trading and clients' ongoing due diligence on daily basis particularly on assigned risk basis. The Respondent has a robust and ongoing monitoring mechanism of its clients and transactions that are not in line with customer's profile are investigated and inquired from such customers. A date wise email log is maintained for follow-up purposes. The information shared by the customer, if sufficient and appropriate, is maintained in the records and accordingly, the customer profile is updated. In cases where required information is not provided by the customer, actions are taken in accordance with Policy and procedures of the Respondent.



The Respondent was accorded an opportunity of personal hearing on July 5, 2019. Syed Raza Hussain Rizvi (Chief Executive Officer), Mr. Ali Ahmed Noor, Mr. Shahzeb Haider, Mr. Faraz Ullah Khan and Mr. Fahad Azeem (the "Representatives") appeared for and on behalf of the Respondent. The Representatives reiterated its stance as provided in the written response.



Securities and Exchange Commission of Pakistan Securities Market Division

In addition, the Respondent provided information vide email dated July 31, 2019 in support of its case.

5. I have examined the written as well as oral submissions of the Respondent and Representatives. The Respondent provided its AML/CFT policy which has been found cogent. The Respondent submitted that the Memorandum and Articles of Association of two corporate accounts were available with the Respondent at the time of review, however the process for obtaining of certified copies was in process. In regard to obtaining NADRA verisys of identity documents, the Respondent contended that it has more than eight thousand (8,000) clients and it was in process of obtaining NADRA verisys at the time of review. Given that the Respondent was already in process of obtaining NADRA verisys at the time of review and the same was eventually obtained, therefore, the Respondent is not being held accountable on this count.

6. In regard to its failure to perform CDD in terms of monitoring transactions of one of its client to ensure that they are consistent with its knowledge of customer, the Respondent produced email in its defense. Review of email reflects that the said transactions did not go unnoticed. Rather these transactions had been taken up for enquiring the sources of funds and subsequently a STR was filed. This substantiate the claim of the Respondent that it had monitored the transactions of its said client, hence, not being held accountable on this account.

7. The Respondent contended that it had obtained approval from senior management to establish or continue business relationship with three clients. In order to support its claim, the Respondent submitted account opening form signed by its compliance officer and a list of clients categorized as PEP, signed by its chief executive officer. The response of Respondent is found satisfactory.

8. In regard to its failure to file STR within stipulated time period, the Respondent contended during the hearing that it would have been in a position to file STR only after receipt or failure of the customer to provide information. The Respondent further insisted that whenever a transaction appears to be out of its character or knowledge of the customer, information is called upon from the client. In case the client is unable to provide information or provides information which does not justify the transaction, STR is filed accordingly. The Respondent argued that in the instant case, the time lag between the transaction and filing of STR pertains to period during which the client was required to provide information regarding the said transaction. The response of Respondent is found satisfactory.

9. In regard to its failure to document the reasons for change in risk rating of 311 clients, the Respondent contended during the hearing that as a policy decision risk ratings of old clients were revised upwards due to incomplete record of old client accounts. The change of risk rating along with its reasons should be documented whenever it changes as an outcome of ongoing monitoring. Since these ratings were changed due to policy decision and were revised upwards, the Respondent is not held accountable on this count.

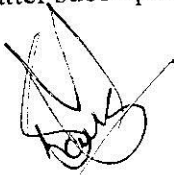




Securities and Exchange Commission of Pakistan
Securities Market Division

10. In regard to its failure to monitor its client on ongoing basis the Respondent contended that it has a robust mechanism to monitor its clients. Given that no specific instance of failure to monitor clients on ongoing basis was highlighted, the Respondent is not held accountable on this count.
11. In view of the foregoing, the proceedings against the Respondent are concluded without any adverse order.
12. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matter subsequently investigated or otherwise brought to the knowledge of the Commission.




Shauzab Ali
Commissioner (SMD)

Announced on 2-9-2019
Islamabad