



Securities and Exchange Commission of Pakistan

Adjudication Division
Adjudication Department-I

Before Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Lakhani Securities (Private) Limited

Dates of Hearing

March 16, 2021

Order-Redacted Version

Order dated March 26, 2021 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Lakhani Securities (Private) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated January 21, 2021
2. Name of Company	Lakhani Securities (Private) Limited
3. Name of Individual	The proceedings were initiated against the Company i.e. Lakhani Securities (Private) Limited
4. Nature of Offence	In view of alleged violations of Regulations 4(a), 18 (c), 6(3)(a), 6(3)(c), 6(4), 9(4)(a), 9(4)(c), 11(2) and 15(3) of AML Regulations 2018 read with Section 40 A of SECP Act, 1997.
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have examined the written and oral submissions of the Respondent. In this regard, I observe that:</p> <p>i. With regard to the observation regarding deficiencies in AML/CFT policy, the Respondent during the hearing provided that the policies have been updated subsequent to the review and will be approved upon the medical recovery of its CEO. However, during the inspection, the policy was found to be deficient with respect to identification of beneficial owner, identification of customers belonging to high-risk jurisdictions e.g. Afghan Refugees and procedures relating to cross border funds transfer for the non-resident/ foreign clients. It was observed that such deficiencies existed in policy of the Respondent despite ample time lapsed since promulgation of A.MI/CFT Regulations. In this regard, negligence was observed on part of</p>



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	<p>the Respondent and its compliance officer to ensure that its policies and procedures are being kept updated as per the requirements of the AML Regulations. the Respondent was therefore, found non-compliant with Regulation 4(a) of the AML Regulations. Further, the compliance officer of the Respondent was also found in contravention of Regulation 18(c) of the AML Regulations.</p> <p>ii. With regard to the identification of beneficial owner of its trustee client, the Respondent during the hearing provided that the trust is an old client of the Respondent and their investment was minimal due to which comprehensive KYC/CDD was not done at the time of inspection. However, the Respondent has reportedly obtained information regarding the beneficial owners and also obtained unaudited financial statements. However, keeping in view that such information was not readily available at the time of inspection, the Respondent was found non-compliant with Regulation 6(3)(a) of the AML Regulations.</p> <p>iii. With regard to the source of income/ funds of its clients, the Respondent submitted that some of the clients are reluctant to give out information due to which such instances have been highlighted. However, subsequent to the observation highlighted by the inspection team, these clients have been put on strict monitoring following the procedures of on-going monitoring as reported by the Respondent. The contention of the Respondent in this regard is not tenable since, the Respondent is liable to obtain information regarding source of income/ funds at the time of establishing a business relationship or during the course of business relationship as per the procedures of ongoing monitoring. Such information is utilized for the purpose of monitoring trading activity of the clients and detect any material departure from the usual trading activity. In absence of such information, meticulous compliance of the AML Regulations cannot be ensured. Even in cases where clients are reluctant or unwilling to provide certain information, the Respondents should take reasonable steps to ensure that no fraudulent/ illicit activity is being performed in the clients accounts. The Respondent had failed to demonstrate appropriate CDD measures with respect to the 3 client accounts as highlighted during the inspection and was therefore, found non-compliant with Regulation 6(3)(a) and 6(3)(c) of the AML Regulations.</p> <p>iv. With regard to the NADRA Verisys of its clients, the Respondent during the hearing submitted that such facility could not be availed due to no response from NADRA on providing Verisys. the Respondent was then inquired regarding any third-party services availed for the purpose of identify verification of its clients. However, the Respondent failed to demonstrate any such effort made on its part to perform Verisys of its clients. The Respondent is yet to conduct verification of identity documents of its clients. Therefore, the Respondent was found non-compliant with Regulation 6(4) read with Annexure I (note i) of the AML Regulations.</p> <p>v. With regard to the expired CNICs, the Respondent during the hearing submitted that subsequent to the inspection, they are in continuous follow up</p>
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with the clients to provide renewed CXICs. The has during the hearing provided that 90% of new CNICs have been obtained and the rest are under process. However, during the inspection it was observed that around 71 CNICs of primary account holders and joint account holders were expired. The Respondent has shown delay in responding to such non-compliance due to which such instances were highlighted during the inspection. •rhe Respondent was therefore, found non-compliant with Regulation 6(4) read with Annexure I (note iv) of the AML Regulations. In view of the said, the Respondent is advised to implement a systematic procedure which can generate alert upon the expiry of CNICs and complete the process of obtaining renewed CNICs within reasonable time to ensure compliance of AMI, Regulations in letter and spirit.

- vi. With regard to the observation regarding financial statements of one of its trustee clients, the Respondent during the hearing submitted that they have obtained latest un-audited financial statements of the client. However, the audited financial statements are yet to be received from the client. The Respondent has not yet completed the said documentation with respect to its client and was found in contravention of Regulation 6(4) read with Annexure I of the AML Regulations.
- vii. With regard to the EDD measures for one of its high-risk clients, the Respondent during the hearing provided that only senior management approval was missing at the time of inspection. The Respondent was therefore, found non-compliant with Regulation 9(4)(a) and 9(4)(c) of the AMI. Regulations. Subsequently, the Respondent has obtained the said approval and conducted EDD measures in compliance with the EDD requirements of the AML Regulations.
- viii. With regard to the written justification of its low risk clients, the Respondent provided that they duly contact due diligence of its clients and the risk rating is assigned based on the outcome of such CDD process. However, the Respondent had not maintained written justification based on its assessment for the low-risk clients. The Respondent was therefore, found in contravention of Regulation 11 (2) of the AML Regulations which clearly requires to keep written justification where its customers are categorized as low-risk.
- ix. With regard to the KYC/CDD checklist of its corporate client, the Respondent provided that it has completed the KYC/CDD form and is now available with them. However, such information was not available during the inspection due to which the Respondent was found non-compliant with Regulation 15(3) of the AML Regulations which requires that a regulated person shall keep all such documentation pertaining to the KYC/CDD of its clients.

In view of the foregoing and admission made by the Representatives, contraventions of the provisions of AML Regulations & Licensing Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs.



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	<p>350,000/- (Rupees Three Hundred and Fifty Thousand Only) is hereby imposed on the Respondent. The Respondent is directed to deposit the aforesaid penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days of date this Order and furnish the original deposit challan to this Office. Further, the compliance officer of the Respondent is strictly advised to ensure that its A.ML/CFT policy is being updated in a timely manner as per the requirements of the AML Regulations.</p> <p>Penalty order dated March 26, 2021 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A Penalty of Rs. 350,000/- (Rupees Three Hundred and Fifty Thousand Only) was imposed on the respondent company to ensure compliance of law in future.
7. Current Status of Order	Appeal has been filed by the respondent company