



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department- I

Adjudication Division

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

In the matter of Show Cause Notice issued to M/s. Zillion Capital Securities Limited

Date of Hearing	December 22, 2020
Present at the Hearing representing Zillion Capital Securities Ltd	Mr. Mateen – Compliance Officer

ORDER

This order shall dispose of the proceedings initiated against the Show Cause Notice (The "SCN") No. 1(48) SMD/ADJ-I/PMEX/2018 dated June 26, 2020 issued to Zillion Capital Securities (Private) Limited (The "Respondent") by Securities and Exchange Commission of Pakistan (The "Commission").

2. Brief facts of the case are as follows:

- a) The Respondent is a Trading Rights Entitlements Certificate Holder (TREC) of the Pakistan Stock Exchange Limited ("Psx") and licensed as a securities broker with the Securities and Exchange Commission of Pakistan (the "Commission"). Thematic Review (The "Review") of the Respondent was initiated by JIT vide inspection No. T/036 dated February 10, 2020 covering a review of 3 months November 2019 to January 2019. JIT Report included Observations related to Securities and Exchange Commission of Pakistan (AML/CFT) Regulations 2018.
- b) The review revealed the non-compliance of Regulations 6(4) of the AML Regulations which requires photocopies of the identity documents shall be validated through NADRA Verisys. In this regard, the Respondent failed to provide evidence of NADRA Verisys in respect of 10 sample.

3. The Commission therefore, took cognizance of the aforesaid violation and issued SCN dated June 26, 2020 to the Respondent. The Respondent vide its letter dated July 09, 2020 submitted reply to the SCN, which is reproduced below:

"We during the onsite inspection and vide our letter dated; March 06, 2020 apprised the inspection team that ZCS ensures that the identity documents i.e. CNIC of each client is validated either by requiring CNIC copy to be verified through original CNIC (original seen) or by requiring attested copy of the CNIC. It was further apprised that this substitute and effective practice with regard to validating of CNIC is in place for the reason brokerage firms are facing difficulty in obtaining

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NADRA Verisys system for reasons well known to concerned persons of NADRA responsible for guiding/ authorizing the aforesaid system.

We believe that ZCS should not have been issued Show cause for not being able to acquire NADRA Verisys as it is under common knowledge of all the market participants that TREC holders at least until mid of the last quarter were not granted approvals by NADRA for obtaining Verisys system.

It is worth highlighting that the honorable Commission also played its due role in addressing this brokerage industry wide issue (TREC holders not being able to acquire NADRA Verisys system) by writing a letter to NADRA Authorities on March 29, 2020 (i.e. well after the date of our above specified letter addressed to inspection team).

Further, Pakistan Stock Brokers Association also wrote a letter to NADRA officials on similar lines in April 2020 to ensure that brokerage firms are able to obtain the Verisys facility from NADRA. Letters written by SECP and Pakistan Stock Brokers Association to NADRA are enclosed as Annexure 1 and 2, respectively.

Hence, the above clearly substantiates that ZCS and for that matter any other TREC holder of PSX had never been in position to obtain the Verisys facility, despite its all willingness. However, at the same time ZCS to that end had adopted substitute and effective practice of ensuring that attested copies of indemnity documents are obtained from the client.

Furthermore, as a result of brokerage firms recently receiving reasonable assurance of being facilitated by NADRA, ZCS as of recent has applied to NADRA for obtaining the aforesaid facility

4. The Respondent was accorded an opportunity of personal hearing dated December 22, 2020. The hearing was attended by Mr. Mateen (Compliance Officer) as Authorized Representative. During the Hearing, the Authorized Representative reiterated the submissions made in writing and further stated that the Respondent have now acquired Verisys system from NADRA and that all verification from the system with respect to its clients have been completed. The Respondent also forwarded an email evidence installation of approval by NADRA.

5. I have perused the reply to the allegations made in the SCN and heard the Respondent. I am of the view that verification through NADRA Verisys system was made mandatory



Mateen



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through promulgation of AML/CFT Regulation since 2018 and the Respondent alternate verification protocol adopted by the Respondent is neither prescribed nor does it suffice the requirement of the regulatory framework. However, I appreciate and acknowledge the efforts of the Respondent and the fact the NADRA Verisys system has subsequently been

Acquired and the requisite verifications have been completed. However, it remains that the Respondent was in violation of Regulation 6(4) of AML/CFT Regulations 2018 at the time of the inspection was initiated. Inordinate delay in complying with statutory requirements of AML/CFT Regulations has made the Respondent liable to penalty as provided in section 40(A)". Based on the aforesaid, I hereby impose a penalty of Rs.50, 000/- (Rupees fifty thousand only) under section 40(A) of the Act for the contravention with Regulation 6(4) of AML Regulations.

6. 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 the date of this Order and furnish the original deposit challan to this Office.

7. This order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the Law on the matter subsequently investigated or otherwise brought to the knowledge of the Commission.



(Ali Azeem Ikram)

Executive Director (Adjudication Department-I)

Announced on 23-12-2020

Islamabad.