



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)
Adjudication Department

Through Courier

File No. 1(36) SMD/ADJ/ISB/2018

October 29, 2018

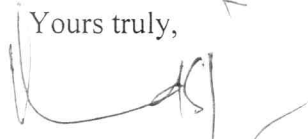
AAA Securities (Private) Limited,
Through its Chief Executive officer,
709, 7th Floor, ISE Towers,
55-B, Jinnah Avenue Blue Area,
Islamabad.

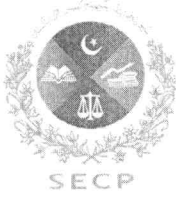
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(36) SMD/ADJ/ISB/2018

Dear Sir,

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

Yours truly,


Kamal Ali
Additional Director



Securities and Exchange Commission of Pakistan
Securities Market Division

Before the Commissioner (SMD)

In the matter of Show Cause Notice Issued to
AAA Securities (Private) Limited

<i>Date of Hearing</i>	<i>September 17, 2018</i>
<i>Present at the Hearing</i>	<i>Mr. Asif Saeed Malik, CEO of Respondent</i> <i>Masoom Akhtar, Consultant</i>
<i>Place of Hearing</i>	<i>In person at the SECP, NICL Building, Jinnah Avenue, Blue Area, Islamabad</i>

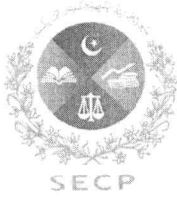
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(36) SMD/ADJ/ISB/2018 dated September 03, 2018. The SCN was served on AAA Securities (Private) Limited (“Respondent”) by the Securities and Exchange Commission of Pakistan (“Commission”) under section 150 of the Securities Act, 2015 (“Securities Act”). The Respondent is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited (“PSX”) and licensed as a securities broker with the Commission under the Securities Act and the Securities Brokers (Licensing and Operations) Regulations, 2016 (“Brokers Regulations”).

2. Brief facts of the case leading to issuance of SCN are that the Commission vide order dated September 07, 2017, in exercise of the powers conferred under section 138 of the Securities Act, conducted inspection wherein a thematic review of compliance status of regulatory requirements relating to Anti Money Laundering (“AML”), Know Your Customer (“KYC”) and Customer Due Diligence (“CDD”) was carried out of the Respondent. The inspection report dated on June 29, 2018 (“Report”) *inter alia* revealed the following:

- (i) It was observed that CTR and red flags for identification of STR as prescribed under the KYC/CDD Guidelines of PSX read with the Anti Money Laundering Regulations, 2015 had not been specifically covered in KYC/CDD/AML policy of the Respondent. Further, requirement relating to independent compliance function as required under the KYC/CDD Guidelines of PSX had not been specifically mentioned in the KYC/CDD/AML policy by the Respondent.
- (ii) The KYC/CDD Guidelines issued by PSX requires brokers to ensure their approved policies are effectively disseminated to and understood by the relevant personnel. The Respondent had not provided acknowledgements from employees indicating their understanding of KYC/CDD policies.
- (iii) As per KYC/CDD Guidelines of PSX, broker is required to obtain and document sufficient information on the purpose and intended nature of account to be opened/maintained with them and develop a profile of the customer based on results of customer identification and risk assessment. Brokers are also required to maintain and document the information and record relating to customers’ business and risk profile, historical pattern of transactions, and pattern and source of funding of the account. Further, point (a) of KYC, CDD & AML Policies and Procedures of the Respondent





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requires that "sufficient information shall be obtained and documented on the purpose and intended nature of the account to be opened/maintained with it and develop a profile of the customer based on results of customer identification and the risk assessment. Information regarding the intended investment plan of the customer must also be obtained to the extent possible and should be documented." It was observed that investment profiling of customers had not been documented by the Respondent as specified in the KYC/CDD Guidelines of PSX as well as policy of the Respondent.

- (iv) It was observed that customer information provided by the Respondent did not contain information regarding source of funds and nature of income, as depicted below:

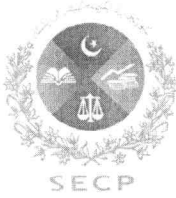
Code	Client Name	Risk Profile as per KYC form	Occupation
4001000505	Saima Malik	Not mentioned	Not mentioned in account opening form

- (v) It appeared that the Respondent had not maintained risk categorization in accordance with KYC/CDD Guidelines of PSX. Section G of its KYC form was blank in certain instances as follows:

Code	Client Name	Risk Profile as per KYC form	Occupation
40010050	Raja Gulfraz	Not mentioned	Service
4001000505	Saima Malik	Not mentioned	Not mentioned in account opening form
40010054	Malik Hafiz Dawood Khalil	High	Business
40010051	Shaffi ullah	Not mentioned	Service
40010053	Malik Zaheer Ahmed	Not mentioned	Business Executive, however, as per copy of visiting card the client is a director of a COMPANY NAMEDLY RECOM A SKF SERVICE PARTNER
40010022	Mehmood Zafar	Not mentioned	Not mentioned in CDC sub account opening form, however, APL has submitted his employment certificate

- (vi) Absence of risk categorization as identified in (v) above also indicated that the Respondent had not performed Enhanced Due Diligence (EDD) for its high-risk customers as required under KYC/CDD Guidelines of PSX.
- (vii) In view of absence of customer identification, absence of risk assessment and categorization of clients, absence of enhanced due diligence, lack of ongoing due diligence, less effective compliance function reporting structure and lack of proper training, it appeared that the Respondent did not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.
- (viii) It was observed that Mr. Asif Saeed Malik was holding the position of CEO of the Respondent. In addition to the said position, he had been designated as Compliance Officer, hence apparently compromising the role of compliance officer in its true letter and spirit. KYC/CDD Guidelines of PSX require that Head of Compliance should be independent and should directly report to the Board of Directors.
- (ix) The compliance reports of the Respondent did not cover areas such as risk categorization.





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3. It appeared from the foregoing that the Respondent *prima facie* was in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, regulation 4.17 of the PSX Regulations and the Know Your Customer & Customer Due Diligence Guidelines issued by PSX on March 16, 2012.

4. The Commission took cognizance of the aforementioned alleged violations and served the SCN dated September 03, 2018 under section 150 of the Securities Act to the Respondent. The Respondent was called upon to Show Cause in writing within seven days from the date of receipt of the SCN and the case was scheduled for hearing before the undersigned on September 17, 2018. Mr. Asif Saeed Malik, Chief Executive Officer of the Respondent filed written reply to the SCN vide letter of September 11, 2018. Hearing in the matter was held on September 17, 2018.

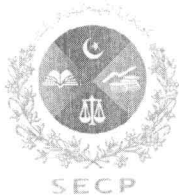
5. The submissions made by the Respondent in response of the SCN and verbally during the course of hearing are summarized as under:

- (i) *The necessary CTR and red flags for identification of STR as prescribed under the KYC/CDD Guidelines of PSX read with the AML Regulations, 2015 have now been covered in KYC/CDD/AML policy of AAA Securities (Private) Limited.*
- (ii) *The necessary acknowledgement from employees indicating their understanding of KYC/CDD policies is furnished.*
- (iii) *As per KYC/CDD Guidelines issued by PSX, the following information/document is obtained from the customer for opening the account and developing the investment profile of the customer:*
 - a. *Proof of employment/business*
 - b. *NTN number and where possible Tax return*
 - c. *Customer profession/occupation*
 - d. *Source of Income*
 - e. *Resident/Non Resident*

Based upon the above, investment profiling of the customers is carried out /maintained and documented.

- (iv) *In relation to customer Saima Malik, the relevant information was inadvertently missed out to be mentioned in KYC and account opening form.*
- (v) *Missing information relating to customers who had not been categorized as per their risk was furnished.*
- (vi) *With reference to EDD, the said customer was erroneously marked as "High Risk" customer in KYC/CDD form.*
- (vii) *The adequate checks and controls to monitor and remain alert regarding suspicious transactions are in place. This can be evident from KYC/CDD and AML policies adopted by the Company. It is submitted we are very small brokerage house having only 37 clients. All the clients are domestic/household and mostly doing private service. As such the risk category of such clients is "Low".*
- (viii) *AAA Securities (Private) Limited has already designated Mr. Arshad Saeed Malik as a Compliance Officer keeping in view the Regulation 16(9)(e) of the Securities Brokers (Licensing and Operations) Regulations 2016.*





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(ix) *It is submitted that we are covering all the aspects of risk categorization while preparing the Compliance report. The copies of compliance reports for the last three months are furnished.*

6. I have heard the arguments presented by Representatives of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework and written response filed by the Respondent. The primary allegation against the Respondent is that it acted in non-compliance with provisions of the relevant laws mentioned in para 3 above.

7. In order to arrive at a decision, it is essential to consider that:

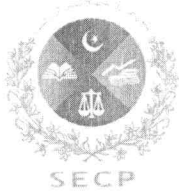
- (i) the KYC/CDD Guidelines of PSX require that for developing a customer profile it is important to find out and document in broad terms what does the customer intend to do. For example, are there any specific sectors or stocks that the customer does not wish to participate in; is the customer intending to invest for short-term only or is the customer intending to invest for longer term; will investment be only in liquid scrips or any scrip; or any other special needs or requirements of the customer. Mere collection of information identified by the Respondent in 5(iii) above does not satisfy this requirement;
- (ii) the Respondent had not maintained risk categorization of some of its customers due to which possible absence of EDD was observed: and
- (iii) due to the above and several non-compliances that were accepted and later on rectified by the Respondent, it could not have been possible for it to have adequate checks and controls to monitor and remain alert regarding suspicious transactions.

8. Before arriving at a decision, it is pertinent to mention that regulatory requirements relating to KYC/CDD and AML have been implemented since the year 2012 considering the public interest, integrity of the Pakistani capital market and the country's international commitments. Hence, all licensed persons are expected to ensure strict compliance with this regime by remaining vigilant and putting in place requisite policies and procedures to curtail activities relating to money laundering and financing of terrorism. The Commission has adopted a zero tolerance policy towards any gaps in this area and will not show any leniency for non-compliances in future.

9. Based on the above and the fact that the Respondent has accepted several non-compliances in its response and during the course of the hearing, some of which have been rectified, I have reasons to conclude that it is established that the Respondent was guilty of misconduct in terms of section 150(5) of the Securities Act, as the Respondent is non-compliant with provisions of relevant laws mentioned in para 3 above. The Respondent has argued that most non-compliances identified were unintentional and due to lack of comprehension of the relevant legal framework. However, ignorance of law is not an excuse as the regulatory framework has been in effect since the year 2012 and the Respondent could have sought guidance of PSX or the Commission.

10. In view of the foregoing, violations of the regulatory framework committed by the Respondent are established. However, since the thematic review of the Respondent for AML, KYC and CDD has been carried out for the first time, I have decided to take a lenient view.





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Considering the same, no monetary penalty is being imposed, however, the Respondent is strictly warned to ensure compliance with the relevant legal framework.

11. Furthermore, the Commission will carry out a follow-up review within due course of time to assess whether the aforementioned violations have been rectified by the Respondent and in case of continued non-compliance, the Commission shall adopt a stringent course of action.

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.




(Shaukat Hussain)
Commissioner

Announced on October 29, 2018
Islamabad.