



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Adjudication Department


No. 1(149)SMD/ADJ/KHI/2019

June 10, 2019

Abbasi Securities (Private) Limited
Through its Chief Executive Officer
Room No. 724-726, 7th Floor
Stock Exchange Building, Stock Exchange Road
Karachi

SUBJECT: Order in Respect of Show Cause Notice dated May 03, 2019 Bearing Number No. 1(149)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 Abbasi Securities (Pvt.) Limited

Date of Hearing

May 10, 2019

Present at the Hearing

Representing Abbasi Securities (Pvt.)
Limited

- i. Syed Mohammad Ali Abbasi
(Authorized Representative)
- ii. Raheel Javed Khan

ORDER

This Order shall dispose of the proceedings initiated through the Show Cause Notice bearing No. 1(149)SMD/ADJ/KHI/2019 dated May 3, 2019 (“SCN”) issued to Abbasi Securities (Pvt.) 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) The Joint Inspection Team of PSX, Central Depository Company and National Clearing Company of Pakistan Limited (herein after referred to as “JIT”) conducted an inspection of the Respondent (“Inspection”) to assess its compliance with the regulatory requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (“AML Regulations”).
- (c) The Inspection, *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





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approved by its board of directors, to enable the regulated person to effectively manage and mitigate the risks that are identified in the risk assessment of ML/TF or notified to it by the Commission.

- ii. The Respondent failed to provide AML training to its employees in contravention of Regulation 20(b) of the Act which requires that a regulated person shall chalk out and implement suitable training program for relevant employees on annual basis, in order to effectively implement the regulatory requirements and regulated person own policies and procedures relating to AML/ CFT.
- iii. 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' knowledge of the customer.
- iv. The Respondent had failed to perform Customer Due Diligence of twenty five clients i.e. information such as source of income, monthly/yearly income, business and its ownership and control structure etc. was not obtained at the time of opening of the account in violation of Regulation 6(2) which requires that a regulated person shall apply Customer Due Diligence measures when establishing business relationship with a customer.
- v. The Respondent, had assigned incorrect risk ratings to eleven clients in contravention of Regulation 3 (1)(a) that requires a regulated person to take appropriate steps to identify, assess and understand, its money laundering and terrorism financing risks in relation to its customers, document its risk assessments and keep them updated.
- vi. The Respondent had not established beneficial ownership of nine of its clients whose profile did not match with their trading in violation of Regulation 6(3) and 6(7) which requires a regulated person to identify the beneficial owner.
- vii. The Respondent has not devised mechanism for maintaining the clients records in violation of Regulation 15.
- viii. Regulation 14 requires a regulated person to pay special attention to all complex and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions shall as far as possible, be examined, the findings established in writing, and be available to assist the relevant authorities in inspection and investigation. The transactions,





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which are out of character, are inconsistent with the history, pattern, or normal operation of the account or are not commensurate with the level of income of a customer shall be viewed with suspicion, be properly investigated and referred to Compliance Officer for possible reporting to FMU under the AML Act. The basis of deciding whether an STR is being filed or not shall be documented and kept on record together with all internal findings and analysis done in relation to a suspicion irrespective of the fact that transaction is subsequently reported or not. The Respondent had not documented the reason of its decision to file STR or not in eight cases.

- ix. The Respondent had not designed job description of its compliance officer in accordance with the requirements of AML Regulations detailed in Regulation 18(c).
- x. The Respondent had not developed an independent audit function in violation of Regulation 4(d).

3. It appeared from the preceding that the Respondent *prima facie* acted in contravention of the AML Regulations. Accordingly, the Commission took cognizance of the aforementioned facts and served the SCN requiring the Respondent to explain its stance in person on May 10, 2019. The Respondent submitted its reply vide its letter dated May 9, 2019 reproduced hereunder:

- i. *Abbasi Securities (Private) Limited (ASL) have developed AML & CFT Policy as per the guidelines provided by the SECP and approved the same from the Board of Directors of the company. Extract of Board Resolution together with the approved policy was submitted to the Oversight Committee Team responsible for our Thematic Review. However, we do note that drafting of suitable policies in this regard are work-in-progress and we will continue to improve.*
- ii. *Training has been provided to all the employees present in Head Office and Branch Office. Training presentation is provided during the review.*
- iii. *We have various methods of monitoring client transactions. These include, clients are only inducted with a reference, each client is allocated to a trader who is trained to flag suspicious transaction, transactions are reviewed by head of sales at day end, on payment to client, and transactions are reviewed to ascertain what the payment is made against. We however note that these procedures are not very well documented and also need to be refined.*

Implementation of AML & CFT policy is an ongoing process and new to many individuals, therefore, clients are reluctant to share the information of their income and wealth with a brokerage house. But as the culture is developing we are receiving





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evidence of income support and wealth from clients enabling us to update our records with respect to clients' information and due diligence. Over the last three months we have been able to obtain income/wealth information on seventeen numbers of clients. Whilst we have sent and followed up information request to 300 clients.

- v. *ASL initial risk rating is based on the occupation/profession of clients as mentioned in our records. Whereas, team of thematic review rate clients on the basis of their profile and trading history. For such clients we have obtained income supports and reviewed our risk rating. Furthermore, we are reviewing our initial risk rating as and when we are in receipt of any income support from our client. Finally, we note that this is going to be an iterative process.*
- vi. *The clients highlighted are very old clients and reputable people in the industry. Such clients have historically shown reluctance in sharing personal information. We however note that as the culture of KYC is developing, clients are now willing to share this information.*
- vii. *All data and information related to clients' is available in our head office and also in branch office and can be retrieved when required. All the Standard Account Opening Form (SAOF) are maintained in our head office whereas, information related to receipts and payments is maintained at our branch office.*
- viii. *Most clients identified are very old clients. Specific explanation are given below:*
 - a. *Mrs. Viena Zainab: Her annual income consists of dividend income which is reflected in her annual income tax return provided to us.*
 - b. *Mrs. Zahida Khan: As per the income tax return provided her income consists of dividend income, profit on saving certificates and agriculture income. All declared to the FBR in income tax return.*
 - c. *Mrs. Naseem Liaquat Merchant: As per the evidence provided to us she has sufficient net assets to justify the transactions made further her income comprises of rental income from property and profit on bank accounts.*
- ix. *Job description of the Compliance Officer has been provided to the team during the review.*
- x. *Initially, we had hired a company for outsourcing ASL internal audit function but due to change in the management of the company the process of finalizing the internal audit agreement could not be completed. We are looking for alternative options.*





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4. The Respondent was accorded an opportunity of personal hearing dated May 10, 2019. Syed Mohammad Ali Abbasi and Raheel Javed Khan (the “**Representative**”) appeared for and on behalf of the Respondent and reiterated the submissions made in the written reply.

5. I have examined the written as well as oral submissions of the Respondent and its Authorized Representative. The primary justification extended by the Respondent for not having an updated AML policy was that the AML Regulations were new (promulgated in 2018) and reasonable time was not available to understand the compliance required. The explanation of the Respondent does not hold merit. While the AML Regulations were issued in 2018 but the requirements contained therein are not new. Rather the requirements were introduced in 2012 when the then Karachi Stock Exchange (presently PSX) with the approval of the Commission, through regulation 4.18 of the Rule Book made it mandatory for the securities brokers to formulate and implement an effective KYC and CDD policy in accordance with the Know Your Customer and Customer Due Diligence Guidelines issued by the Exchange. A comparison of the regulatory framework of 2012 with AML Regulations does not reflect any material difference in terms of requirements. Further, the Inspection initiated on March 8, 2019 i.e. eight months after the promulgation of AML Regulations. Therefore, the AML Regulations cannot be termed as new set of requirements and the argument of the Respondent that sufficient time was not available for compliance is untenable.

6. The Respondent informed that it had disseminated its AML policy to its employees and provided trainings in order to effectively implement the regulatory requirements relating to AML/ CFT. As informed by the Respondent that it had provided trainings to its employees and keeping in view the fact that there was still considerable time in which the Respondent could have provided further training to its employees. Moreover, regarding non maintenance of the clients records, the Respondent submitted that they are maintaining clients record and provided vouchers and supporting documents after hearing. Therefore, it would be unjust to hold the Respondent accountable on these counts.

7. The Respondent admitted its failure to conduct basic Customer Due Diligence of twenty-five of its clients by not obtaining information such as source of funds, monthly/yearly income etc. prior to opening of the accounts. Moreover, the failure to establish beneficial owner of nine clients was also admitted by the Respondent. It was submitted during the hearing that information such as wealth statements was being called from clients i.e. after being highlighted by the Inspection. Opening of accounts without obtaining integral information relating to source of funds and beneficial ownership reflects gross neglect of the regulatory framework on part of the Respondent and obtaining such information post the Inspection would not undo the default.





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8. The Respondent did not contend its failure for assigning incorrect risk ratings to eleven of its clients, the claim of the Respondent that it had it assigned ratings as per the AML Regulations does not substantiate and corroborate with the documentary evidence obtained during the Inspection. A six months analysis of these accounts reveal significant trading activity without any disclosure of source of income. A few of these accounts had substantial deposits and withdrawals in their accounts. While this constitutes as failure of Customer Due Diligence at the time of opening of account, it also reflects that the Respondent had failed to recognize the magnitude of risk such client accounts could pose in absence of information such as source of funds.

9. The Respondent admitted that it did not have an independent audit function to test its systems. Requirement to have an internal audit function is not new as the same exists in Securities Broker (Licensing & Operations) Regulations, 2016. Therefore, establishing an audit function post inspection does not undo the default of the Respondent.

10. The Respondent, could not present any practical mechanism, system or design to monitor its client's on ongoing basis. The requirement of ongoing monitoring of customers to ensure that the transactions are consistent with its knowledge is, not merely met, by formulating a policy without mechanism for its practical implementation. Moreover, it transpires from the deficiencies observed during the Inspection, such as failure to gather vital information for ongoing monitoring including source of funds, establishing beneficial ownership and assigning incorrect ratings etc., that there is no mechanism for ongoing monitoring in place.

11. In regard to failure to report suspicious accounts/ transactions to FMU, the Respondent contended that the highlighted accounts and clubbed transactions did not generate/ qualify an STR. An analysis of the observations of the Inspection to some extent corroborates with the claim of the Respondent. The Inspection has not highlighted any single transaction, which was required to be reported to FMU rather the observation is based on cumulative figures of six months. Moreover, the primary contention of the Inspection for generating STR was that these accounts did not have any identifiable source of income that is primarily a CDD deficiency as discussed above. Nevertheless, the Respondent was asked to explain its criteria, mechanism or system for identifying STRs or generating alerts. The Respondent admitted that it does not have any such criteria, however, the same had been provided in its revised policy and shall be implemented thought the new software.

12. In view of the foregoing and admission made by the Representatives, contraventions of the provisions of AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of **Rs. 250,000/- (Rupees two hundred and fifty thousand)** under section 40A of the Act is hereby imposed on the Respondent. The Respondent is advised to examine its AML/CFT policy & procedures and the accounts of its





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clients to ensure that the requirements contained in the AML Regulations are met in letter and spirit. A report in this regard shall be submitted to the Commission within sixty (60) days of the date of this order.

13. 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 Original Deposit Challan to this office.

14. 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 3-6-2019
Islamabad