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

In the matter of Show Cause Notice issued to ABL Asset Management Limited

Date of Hearing	February 12, 2020

Order-Redacted Version

Order dated March 13, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of ABL Asset Management Limited (ABL-AML). Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated January 28, 2020
2. Name of Company	ABL Asset Management Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. ABL Asset Management Limited
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 and Section 282J (1) read with Section 282M (1) of the Companies Ordinance, 1984 for violations of inter-alia Regulation 3(1), 4(a), 6(5a), 7(1)(b) and 13(7) of AML and CFT Regulations, 2018
5. Action Taken	Key findings of default of Regulations were reported in the following manner: I have analyzed the facts of the case, considered the documentary evidence placed on record and the arguments put forth by the Respondent Company. I am of the considered view that the submissions by **ABL-AMC** are not plausible on the basis of the following reasons; a. While reviewing the documentary evidence it appears that due diligence may have been exercised while establishing the business relationship with customers. Although, as claimed by ABL-AMC that it was performing regular screening of information available in its system with the prescribed negative lists, due to system limitations information of all directors was not being captured. In my view, in the absence of requisite documents/information, the screening of unitholder database is rendered ineffective and does not serve the purpose/objective of screening of unitholders/ beneficial owners completely. The absence of such critical information is likely to expose

	the company to inefficient screening of its customers with SROs/notifications issued by NACTA/provincial governments/ Ministry of Foreign Affairs, etc. and simultaneously expose the AMC to a potential risk of forming business relationship with a proscribed person. The aforementioned lapse is not only violation of Regulation 7(1) (b) of AML and CFT Regulations but it is also in contravention with the requirements laid down in regulation 6(5a) of AML and CFT Regulations. Nevertheless, it has been noted that ABL-AMC is in the process of upgrading its system to cater the details of all directors /beneficial owners, authorized signatories to perform effective screening, and has ensured complete compliance of AML and CFT Regulations by March 31, 2020. b. While deficiencies in the record / documentation of various investors were noted, in one instance of a petroleum company account, ABL-AMC had not obtained any documentation in order to determine and verify the ultimate beneficial owners of the major shareholders in violation Regulations 6(5a), 7(l)(b) and 13(7) of AML and CFT Regulations 2018. The argument provided by ABL-AMC that passport copies and certificate of incorporation were already placed in the account holder file but it was missing at the time of inspection, is hardly plausible. The term "missing" in the context of documents/information merely indicates the weakness of record keeping by the AMC. c. During review of the investors' record, it was observed that the aforementioned petroleum company account was marked as low risk instead of high risk. The argument furnished by ABL-AMC that the shareholding pattern reflected that a public listed and state owned company held major shareholding (49%) in the respective petroleum company and therefore required Simplified Due Diligence as per clause 11 (2)(b) of AML and CFT Regulations, is not tenable. I am of the considered view that ABL- AML is required to conduct its own CDD/EDD even if a company happens to be well known, is a state owned enterprise or has formed joint ventures with any Government agency. ABL-AML needs to clearly understand that it is incumbent upon the AMC to conduct its own due diligence of the customer with which a business relationship is being established, irrespective of its status. The responsibility of the AMC is not bottled down due to the reason that a company is a public listed or a government owned entity. It is pertinent to point out that section 4.4.3.1 of company's own policy

prescribes that investors who have links to offshore companies should be marked as high risk. Hence, I am of the firm view, ABL AMC has violated Regulation 4(a) of AML and CFT Regulations by not implementing company's own policy, while by assigning incorrect risk categorization, ABL AMC has violated Regulation 3(1) of AML and CFT Regulations 2018.

d. With regards to observation that the name of one of the foreign directors of the petroleum company was also appearing in Panama Papers for having an offshore company, ABL-AMC contention that it performs screening process against the prescribed lists (issued by UNSC and NACTA) before setting business relationship with any entity is not plausible. The effect of the Panama Papers has been explosive-the documents allegedly revealed a global system of undisclosed offshore accounts, money laundering, and other illegal activity. In my considered view, the Panama Papers provide good reason for concern and name of any account holder or beneficial owner appearing in these papers ought to have been a matter of apprehension and should have been dealt with by ABL-AMC proactively.

It is important to understand that any lapse in compliance with the AML and CFT regulatory framework poses a serious threat to national interest. Therefore, there is a need to make serious and effective measures to mitigate money laundering and terrorist finance risk. It is my firm opinion that ABL-AMC is required to focus on the review and monitoring on a continuous basis. I, also, hereby, direct the Respondents to report within 30 days of the date of this order, provide documentary evidence that:

- the oversight mechanism to review the implementation of AML/CFT policy and procedures has started functioning;
- screening of all clients, their associates and facilitators has been completed; and
- risk profiling of all the clients has been revisited and adequate ratings have been assigned;

However, based on my observation at paras 8 and 9 above, I am of the considered view that leniency on non-compliance towards requirements of Regulation 3(1), Regulation 4(a), Regulation 6(5a), Regulation 7(1)(b) and Regulation 13(7) of AML and CFT Regulations is not possible, since SECP is responsible for ensuring implementation and enforcement of the applicable regulatory framework by entities that fall under its regulatory ambit.

	Therefore, I hereby conclude the proceedings initiated under section 40A of the SECP Act 1997 by imposing an aggregate fine of Rs 650,000/- (Rupees six hundred and fifty thousand only) on the Respondent. Penalty order dated March 13, 2020 was passed by Executive Director (Adjudication-I).
6. Penalty Imposed	A penalty of Rs. 650,000/- (Rupees six hundred and fifty thousand) was imposed on the Company.
7. Current Status of Order	No appeal has been filed against this Order.

Redacted version issued for placement on website of the Commission.