

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

In the matter of Show Cause Notice issued to Adam Securities Limited

Date of Hearing

January 02, 2020

Order-Redacted Version

Order dated January 24, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Adam Securities Limited. Relevant details are given as hereunder:

| Nature | Details |
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| 1. Date of Action | Show cause notice dated December 18, 2019 |
| 2. Name of Company | Adam Securities Limited |
| 3. Name of Individual* | The proceedings were initiated against the Company i.e. Adam Securities Limited and its Board of Directors. |
| 4. Nature of Offence | Proceedings initiated under Section 40A of SECP Act, 1997 for violations of inter-alia Regulation 4(a), 4(c), 4(d), 6(3)(a), 6(3)(c), 6(5)(a), 9(1), 15(3) & 13(7) of AML and CFT Regulations, 2018 |
| 5. Action Taken | <p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have examined the submissions made in writing and during the hearing as well as issues highlighted in the show cause notice and requirements of the Regulations. The facts of the case may be summarized as under:</p> <p>(i) At the relevant time of inspection, the Company's internal controls and procedures were not sufficient due to absence of system in place to screen and identify proscribed persons or entities, to the extent of corporate clients on continuous basis. The Company has admitted that a system has been subsequently implemented and database was updated and it initiated the practice of also adding the details of BOD/trustees/office bearers/associates of the clients. This is violation of regulation (4a) and regulation 13(7) of the Regulations.</p> <p>(ii) In view of available organogram, the Company's internal audit function / internal auditor reports to chief executive and it has been stated by the Company in its written reply that internal audit</p> |



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| | <p>function administratively reports to the chief executive. The Company through its letter dated January 2, 2020, furnished copy of minutes of directors meeting held on October 15, 2019, in terms whereof chief internal auditor presented audit report to board of directors. I am of the view that internal auditor should have direct and unrestricted access to senior management and the board. In this sense, organizational independence is achieved when the chief audit executive functionally reports on its work to the board, where functional reporting includes all the issues relating to the scope of internal audit, from planning to reporting on work results, including the quality control of internal audit activities. The independence of the internal auditor is questionable, which is violation of regulation 4(d) of the Regulations.</p> <p>(iii) The Company has furnished its correspondence with PSX and copy of agreement dated December 16, 2019 with third party for validation of identity documents through NADRA Verisys. The inspection team highlighted 27 instances where documents were not validated through NADRA Verisys. The Company through its aforesaid agreement has furnished evidence to implement NADRA Verisys system through third party vendor.</p> <p>(iv) The Company has furnished documents in support that CDD of its client, who is a housewife was carried, and supporting documents of her source of income were secured. Scrutiny of relevant documents revealed that she was holding funds of Rs. 1,500,000 from rental income of property of her husband; however, supporting documents were not enough to prove that she could make investments of Rs. 1,500,000. There exists a disconnect in her source of income and the amount she made available for investments. In terms of regulation 6(3)(c) of the Regulations, CDD includes monitoring of accounts/transactions on ongoing basis to ensure that the transactions being conducted are consistent and knowledge of the customer, the customer's business and risk profile, the source of funds through regular matching with available information to take prompt action when there is a material departure. The Company therefore needs to comply with regulation 6(3)(c) of the Regulations by securing relevant documents from clients and diligence to be made making relevant available sources of income.</p> <p>(v) The Company has furnished details and supporting evidence of remittances sent to a client, who is a student, who stated himself as ultimate beneficial owner. However, as per relevant information provided, the brother of client was sending him</p> |
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| | <p>remittances from UAE, which was primarily being used by the client for trading transactions. The Company, however, did not substantiate that brother of the client was real owner of such funds, who remitted these funds in the account of client and the same funds were being utilized by the client for making transactions. The money trail of funds utilized by the client is not complete due to lack of supporting evidences of employment record of the brother of client and copies of financial instruments evidencing movement of funds, hence, the Company contravened the requirements prescribed in regulation 6(3)(a) and regulation 6(5)(a) of the Regulations in case of the mentioned client for identification and verification of the client's/beneficial owner's identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources.</p> <p>(vi) For a client, who is a student, and the bank statements of client revealed transactions of millions of rupees, however, he was categorized as "medium" risk. The Company, in support furnished relevant copies of bank statements revealing transfer of funds, however, the Company did not furnish trading activity reports of relevant periods of the said client, which could justify that amounts invested or utilized were as per declared sources. Moreover, as per relevant details, encashment of certificates of millions of rupees was noticed as unusual activity; however, the Company's internal system did not highlight the seriousness of risk and requirement of enhanced due diligence for the said client in violation of regulation 9(1) and 4(c) of the Regulations.</p> <p>(vii) The Company through its letter dated January 2, 2020 provided copies of approvals of chief executive dated October 30, 2018 of four of its high risk clients.</p> <p>(viii) For a high risk corporate client, in order to ascertain source of income of shareholders/beneficial owners, the Authorized Representatives were of the view that corporate clients keeps audited its financial statements, and its sponsors were directors in various companies, and remuneration of director, by virtue of his directorships in companies were being disclosed in respective financials statements where he was acting as director. As per relevant record, total trading in the client's account during the period from July to October 2019 was Rs. 68,465,729 buy and Rs. 5,192,070 sale. I am of the view that the Company in order to ascertain the source of income of shareholders/beneficial owners, needs to weigh other measures as securing copies of documents evidencing sources of income so that requirement given in regulation 9(4)(b) of the Regulations be complied with due to the</p> |
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| | <p>reason that disclosure in financial statements about directors remuneration is made on aggregate basis.</p> <p>(ix) I am of the view that at the time of inspection the Company was not retaining the records of screening performed of its clients as relevant supporting evidence was not provided to the inspection team, which is violation of regulation 15(3) of the Regulations.</p> <p>(x) For reporting of compliance function administratively to chief executive, I am of the view that violation of regulation 18(a) of the Regulations is not attracted in view of submissions made by the Company.</p> <p>In view of the foregoing facts, I am of the view that the Company violated the requirements of the Regulations as narrated in above paras. However, I have also noted that Company has either rectified or in the process of rectifying the alleged defaults to comply with applicable framework. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 300,000/- (Rupees Three Hundred Thousand only) is hereby imposed on the Company. The Respondents are hereby also directed to implement measures to manage risks of AML/CFT, which include but not limited to formulation and implementation of procedures and controls, truly independence of its audit function and procedures to be carried for enhanced due diligence, to ensure that the requirements contained in the Regulations are meticulously complied in true letter and spirit.</p> <p>Penalty order dated January 24, 2020 was passed by Executive Director (Adjudication-I).</p> |
| 6. Penalty Imposed | A penalty of Rs. 300,000/- (Rupees three hundred thousand only) was imposed on the Company. |
| 7. Current Status of Order | An appeal has been filed against this order. |

Redacted version issued for placement on the website of the Commission.