



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

Through Courier

File No. 1(118) SMD/ADJ/KHI/2018

October 29, 2018

Alfalah Securities (Pvt) Limited
Through its Chief Executive officer,
8th Floor, Bahria Complex-3,
M.T. Khan Road,
Karachi

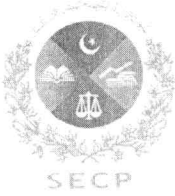
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 10, 2018, BEARING NO. 1(118) SMD/ADJ/KHI/2018

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
Alfalah Securities (Private) Limited

<i>Date of Hearing</i>	<i>October 02, 2018</i>
<i>Present at the Hearing</i>	<i>Atif M. Khan, CEO</i> <i>Faisal Mehmood, CFO</i> <i>Muhammad Aslam</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office,</i> <i>Karachi</i>

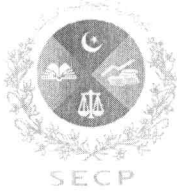
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(118) SMD/ADJ/KHI/2018 dated September 10, 2018. The SCN was served on Alfalah 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 11, 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 May 07, 2018 (“Report”) *inter alia* revealed the following:

- (i) It appeared that the customer risk categorization as provided by the Respondent vide email dated October 12, 2017 was not in accordance with the KYC/CDD Guidelines of PSX. Customers of the Respondent had been marked as Low Risk or Medium Risk. Further, all online trading customers/non face-to-face customers, which are required to be marked as High Risk under the KYC/CDD Guidelines of PSX, were marked as Low Risk by the Respondent. Following customers of the Respondent had been marked as Low Risk thus it appeared that proper risk assessment had not been performed based on the criteria prescribed:
 - a. Qadir Ahmed Khan (client code KR-831) – Country of stay is Qatar while detailed occupation is not mentioned in Account Opening Form. After the query raised by the team it appears that the Respondent has updated customer’s profile from non-resident to resident. It seems that client’s record was not updated in a timely manner as required by the KYC/CDD Guidelines of PSX.
 - b. Amina Lodhi (client code 06936) – a housewife and high net worth client, source of funds could not be ascertained and it is not categorized as high as





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mentioned in the guidelines. The Respondent has not provided any documentary evidence to confirm that the client has invested inherited funds.

It appeared that the risk assessment and categorization of customers had not been done by the Respondent based on customer's identity, nature of income, source of funding, and location/domicile of customer, etc.

- (ii) It was observed that the Respondent was in apparent non-compliance with its own KYC/CDD/AML policy approved by its board of directors. Clause 8.1 of the policy warrants marking of the following type of clients as High Risk:
- a. Legal persons or arrangements including non-governmental organizations; (NGOs)/ not for-profit organizations (NPOs) and trusts / charities;
 - b. Non-face-to face / on-line customers.

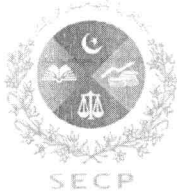
However, the Respondent had marked a joint stock company namely "Ellahi Capital (Pvt.) Limited" as Low Risk whereas, this should have been marked as High Risk. Further, the Respondent had marked profession of Ellahi Capital (Pvt.) Limited as "BROKERAGE HOUSE" however, perusal of Memorandum and Article of association, company is not engaged in capital market brokerage services.

- (iii) It appeared that the Respondent had not taken reasonable care to establish identities of the following customer, as required under the KYC/CDD Guidelines of PSX. The data furnished by the Respondent did not include detailed nature of the customer occupation. Proof of income and employment had not been attached with the account opening forms:
- a. Mirza Mahmood Ahmed (Client Code 06379)
 - b. Qadir Ahmed Khan
 - c. Mr. Kashif Riaz
 - d. Spenta Khandwala

It was further observed that the Respondent had not designed and implemented any system to assess risk appetite of its customer and the source of funds. For instance, customer namely Ms. Amina Lodhi (Client code 06936) is a high net worth housewife and the Respondent had not obtained the details of source of funds.

- (iv) It was observed that the accounts of customers namely Spenta Kandwala's (high net worth individual) and Mr. Kashif Riaz were being operated by UBL. Based on review of back office set up report and CDC setup report of these customers it was observed that email of UBL employees were registered for trade confirmations. Furthermore, account opening forms had been signed by UBL's representative and not the customers. The Respondent had intimated that UBL manages accounts of such persons. However, no authority was maintained for such customers. Thus, it appeared that the true identity of customers had not been obtained by the Respondent as required under the KYC/CDD Guidelines of PSX.
- (v) It appeared that the accounts of non-resident/overseas customers or customers in other cities where the broker does not have a branch/office were opened without strong identity verification procedures such as verification by a reliable third party, reference of an existing customer of the broker, or confirmation from another broker with whom the customer had an account etc., as required under the KYC/CDD Guidelines of PSX. The Respondent had informed that they only conduct bank verification for such customers over the phone. Following instances were observed:
- a. Khuwaja Kashif Bashir
 - b. Muhammad Irfan Majeed





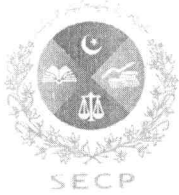
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- c. Jawad Yousuf Dar
- (vi) It was observed that the Respondent had apparently marked all of its customers as Low Risk since opening of their accounts and no risk assessment had been conducted and customers' risk categorization updated, based on information obtained during the relationship with the customer. For example,
- client namely Rahim Roudani was marked as student in 2013 and is currently appearing as student as per CDC set-up report.
 - client namely Hussain Ahmad Fazal was one of client marked as Low Risk (with occupation "service") traded net amount of Rs. 38,174,058 during month of August 2017, which was not in line with his profile available on record.
- It appeared that the Respondent did not implement ongoing due diligence for its customers as required under the KYC/CDD Guidelines of PSX.
- (vii) It appeared that there was an absence of adequate human resource in compliance function of the Respondent and there was only one employee dedicated to ensure all compliance related matters. Mr. Aslam Memon was the Senior Manager Compliance and handling all matters relating to compliance. The KYC/CDD Guidelines of PSX require brokers to institute compliance function with suitable human resource.
- (viii) As per organogram submitted by the Respondent, its head of compliance was reporting to the Board of Directors and the Chief Executive Officer. However, as per the KYC/CDD Guidelines of PSX the Compliance Officer shall report to the Board of Directors.
- (ix) As per compliance reports shared by the Respondent, it appeared that its compliance officer had not highlighted any non-compliance of KYC/CDD Guidelines of PSX. The KYC/CDD Guidelines of PSX require maintenance of record of violations/non-compliance identified which has to be reported to the Board of Directors.
- (x) It appeared that the Respondent had not provided any documentary evidence for on-going training of its employees. The KYC/CDD Guidelines of PSX require that there has to be on-going training of brokers, their employees and agents to ensure that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily.
- (xi) As per Circular 10 of 2017 issued by the Commission, brokers are required to maintain record of customers having trading above the threshold specified in the said Circular. While reviewing the trading data provided by NCCPL for the month of August 2017, it was noted that the following customers had crossed the minimum threshold as defined under the circular. However, it was observed that such customers were initially marked as Low Risk and based on meeting the threshold it appeared that (i) risk category was not reconsidered, (ii) Enhanced Due Diligence was not performed, (iii) column of "Compliance status" was marked as "N/A", and (iv) no other action was initiated by the Respondent:

Month	Client Code	Client Name	Net Traded Amount
August	06678	KASHIF RIAZ	6,655,328
August	06988	HUSSAIN AHMAD FAZAL	38,174,058
August	07000	ATIF ASLAM BAJWA	22,819,303

- (xii) In the absence of proper details regarding customer profile and absence of on-going and enhanced due diligence, it appeared that the Respondent had not put in place proper mechanism to prevent money laundering and combat terrorist financing or to file STR.





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3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, 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 10, 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 25, 2018. The Respondent filed written reply to the SCN vide letter of September 26, 2018. Hearing in the matter was rescheduled and held on October 02, 2018.

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

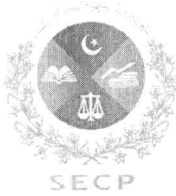
(i) Respondent agreed during the hearing that it was non-compliant in certain areas but were not intentional. In most areas it states that it is compliant. Respondent has voluntarily blocked approx. 649 accounts through CDC which had not provided new account opening and KYC forms.

(ii) The Inspection Team is of the view that all online clients should have been categorized as "High". As mentioned in the Comments, the Respondent requires all of its clients to meet the account opening requirements, along with all other ancillary requirements with regard to KYC. It is thereafter the client's discretion whether or not to avail the online facility being offered by the Respondent. It is therefore an erroneous assumption that these clients were not present in person for opening their account. Hence for categorization of the clients, the Respondent relies on the proper identification and documentation procedure of the client rather than on the criteria of clients availing the online trading facility. Therefore, proper KYC and CDD is implemented for online clients as well. If even this is not acceptable, then no securities broker will be able to have on-line customers, which will not be in the interest of the securities market. With regard to clients as mentioned in sub-para (i) of Para 4 of the SCN, the position is as follows:

a. Mr. Qadir Ahmed Khan is an old client and after implementation of AML program by the Respondent, the Respondent has requested the client to update his profile, which was timely done. However, it transpired that the client's status has now changed from nonresident to resident. Copies of old and updated CNIC along with account opening form were submitted with the Comments, which is furnished. Furthermore, Mr. Qadir is a Landlord and a Property Dealer. The account opening form was signed in before implementation of AML program by the GoP, but he fulfills the criteria of KYC/CDD Guidelines. The client's name is also available in Active Tax Payers List, which adds more comfort to the process.

b. Ms. Amina Lodhi is a widow and as per the Respondent's AML program, the Respondent properly put forward the question about the source of funds, whereby the client has invested inherited funds for which she showed us appropriate evidence. Respondent stated during the hearing that Amina Lodhi

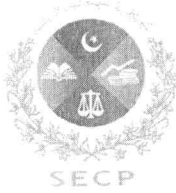




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- should be High Risk and has accordingly rectified the same. Further, it stated that it does not have any evidence of her source of funds available with it. It is therefore not correct that risk assessments of the customers has not done by the Respondent based on customers' identity, nature of income source of funding, location/domicile of the customer, etc.*
- (iii) *The Respondent is and will continue to remain in compliance with all the regulatory requirements and the requirements of its policies and procedures. The Board of the Respondent places top priority to compliance and internal control matters which is evident from the fact that the Respondent is amongst the very few non-listed brokerage houses having Internal Audit Committee and an Independent Internal Auditor. Furthermore, the Respondent's Board has appointed one of the best firms of Chartered Accountants as its External Auditors. These measures impliedly shows the commitment of the Respondent to ensure its compliance with all the regulatory requirements and the requirements of its policies and procedures. With regard to client mentioned "Elahi Capital", the Respondent would again like to confirm that the client is a joint stock company and its principal business is to invest in the securities market and rightly marked as low risk. Copy of latest financial of the company submitted with the Comments. However, Elahi Capital has now been marked as High Risk. The profession as brokerage house was inadvertently mentioned by the concerned officer due to misunderstanding since Elahi Capital has been investing in securities market. This error has been rectified. Based on our explanation, we request the Commission to reconsider the reservation and mark the same as resolved.*
- (iv) *The Respondent's AML program is designed in a comprehensive manner that ensures that every account is scrutinized properly against all applicable regulatory requirements. The information and documentations obtained through the process serve in identified any risk. Part of the Respondent's AML questionnaire, the Respondent enquires the appetite and amount of investment, the client is intended to make. The questionnaire is designed to check and correlate the risk appetite of the client and based on the assumption, we do scrutinize the trading patterns for any risk profiling. It is worth to note that once the account is operated through a comprehensive securitization procedure with regard to the client's identity and all, the Respondent also ensures that no third party cheques/cash are accepted neither issued from/to the clients. Such controls serve that the funds are routed by the clients to the Respondent through compliant/proper/documentated channels and which also ensures that such movement of funds is also surveillance by the client's respective banks. As part of the Respondent's AML program, continues updating of client profile is one of the objectives with respect of trading patterns. The detail questionnaire and continues development is the key to our program. With regard to the Hon'ble Commission's observation on four specific clients, the position is as follows:-*
- a. *Mr. Mirza Mahrnood Ahmed is a prominent lawyer and founding Partner of Minto & Mirza Associates. He is also a Director of SSGC with a carrier spent over 30 years. Further, the Respondent have checked his status at FBR and found his in ATPL.*
- b. *Mr. Qadir Ahmed Khan is an old client and after implementation of AML program by the Respondent, the Respondent has requested the client to update his profile, which was timely done. However, it transpired that the client's status has now changed from nonresident to resident. (Updated Account Opening Form & CNIC furnished). Further, Mr. Qadir, is a landlord and use to work as*





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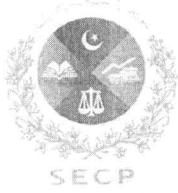
property dealer along with other business ventures. Further, his account was signed in before application of AML program by the GoP. Further to mentioned that client is also available in ATPL which also gave another satisfaction levels. In addition, the client is a DVP and we do not have any issue of clearance of debit once trade is executed.

- c. *Mr. Kashif Riaz & Mr. Spenta Khandwala have given Power of Attorney to UBL Advisory for operation and maintenance of their account (opening of account with broker, execution of trades, settlement function and choice of trustee). The Respondent is not authorized/permitted to take any instruction from the client directly. Further, UBL Advisory has informed us that they take all necessary steps to ensure KYC compliance as mandated in the AML program run by the UBL and further all the risks of operation and settlements is borne by UBL. It is worth to note that UBL advisory is also governed in a similar manner and through the similar regulatory framework of AML the way it applies to AFS. From the above arrangement and inbuilt process with regard to the conduct of KYC, the Respondent understand that UBL Advisory has the mandate to operate and maintain the trading accounts of the clients who they advise us to operate and in the above procedure inherently does not warrant the Respondent to be in direct contact with the client. A similar arrangement as above is also evidenced in cases where UBL would operate any account of its funds (CIS), whereby the Respondent would not conduct KYC of the end clients who invested in those respective funds (CIS). Furthermore, the Respondent would like to inform the Hon'ble Commission that we act on direction of UBL AMC Advisory and the settlement of funds are granted by them. So, under the AML program of the Respondent will not be applicable on AoFs with regard to accounts, which is managed by UBL AMC Advisory Service. Therefore there is no violation.*

While opening of Account of Ms. Amina Lodhi, the Respondent has enquired the source of funds and informed that she would invest from the inheritance of her late husband, for which she showed appropriate evidence. The Respondent would like to add that the client has never failed to fulfill her obligation and she timely pays the Respondent as and when due.

- (v) *It is worth to note that once the account is operated through a comprehensive securitization procedure with regard to the client's identity and all, the company also ensures that no third party cheques/cash are accepted neither issued from/to the clients. Such controls serve that the funds are routed by the clients to the Respondent through compliant/proper/documented channels and which also ensures that such movement of funds is also surveillance by the client's respective banks. Furthermore, the Respondent does not have any office other than the Head Office located in Karachi. Any client which contact is either referred by any existing client and/or referred by the Respondent's holding company i.e. Bank Alfalah Limited. For those clients which are resident out of the city, the Respondent accepts clients who are normally referred by the Respondent's holding company i.e. Bank Alfalah Limited and the Respondent confirms the existence and identity of the client from the holding company. Furthermore, as part of the Respondent's commitment to ensure continuous due diligence with regard to its clients, compliance by the Respondent with the Circular No.10 of 2017 issued by the Commission in true letter and spirit not only serves to ensure compliance with the regulatory requirements, but in fact the same data serves as a filter with regard to the major clients of the Respondent. This data is*

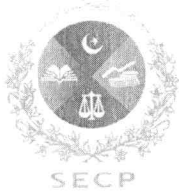




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- also used to ensure that the Respondent conducts continuous due diligence with regard to all these major clients. Furthermore, no client is very active in trading whose custody profile is very low and do not get any alert on the same. Based on the explanation, the Respondent requests the Commission to reconsider this matter taken into account the compliance with Circular 10 of 2017 and practical consideration.
- (vi) With regard to the Hon'ble Commission's observation on two specific clients, the position is as follows:-
- a. Mr. Rahim Roudani has also been emailed the detail of his profile and requests to update his profile. Copy was submitted with the Comments, which is also furnished. However, response is awaited. The Respondent has also reviewed his trading patterns and found that very low activity and less than Rs.50,000/- amounts has been traded by the client in last two years. The client status has been updated based on the review/revised evidence received.
 - b. Mr. Hussain Ahmad Fazal is owner/majority shareholder and Director of Hussain Group of Companies with the carrier of over 20 years. The Group is an active participant in the market. The Respondent is not satisfied with the traded value executed by the client and expects a lot more from him based on his profile and previous experience. Further to add, the turnover is the sum of net buying and selling activity in the market and the Inspection Team is only looking at the turnover Rs.38,174,058/- during the month of August 2017, whereas in fact, the money invested is far below (net cash invested) and he just roll over of same funds by the activity of buying and selling in the market as per the opportunity. In addition to above, he has personal banking lines available for investments in the stock market, which again give him extra edge to invest and manage trading cycles in the market.
- (vii) The Respondent at board level has also highlighted in the matter in detail and the Respondent has already transferred one additional employee to the Compliance Department and is further in the process of hiring more suitable resources who can be appointed in the Compliance Department to further strengthen the compliance division. At any rate, the Respondent does not agree with the observation the Respondent does not have adequate human resource in compliance function. In addition to Mr. Aslam Memon, the Senior Manager Compliance, other employees are also assisting him in handling the matters relating to compliance.
- (viii) It is not correct that the compliance officer reports to the CEO. Administratively and only for day to day affairs, the Compliance Officer reports to the CEO. the day to day matters pertaining to compliance are eventually placed before the Board at board meetings, along with detailed report of the Compliance Officer.
- (ix) The Compliance Officer on routine basis ensures that all the documentation with regard to KYC/CDD are obtained, along with ensuring all other ancillary requirements are met in a timely manner. For this purpose the Compliance Officer ensures that all such matters are addresses in a timely manner and observations are shared with the concerned employees. If no material non-compliance has occurred, how can the Compliance Officer highlight any non-compliance. With the Comments, the Respondent had submitted 3 emails on sample basis that evidences that the Compliance Officer highlights non-compliance of KYC/CDD. As these matters are resolved by the concerned employees in a timely manner therefore such observations are not formed part of the compliance report. It is only when the matter remains

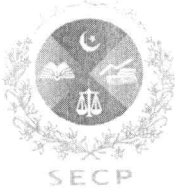




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- unresolved the Compliance Officer is required to report the same to the higher authority and eventually to the Board, whereas there is no such instance.*
- (x) *The Respondent has not only ensured to draft, approve and implement a comprehensive policy with regard to KYC/CDD/AML, but has also ensured that the policy is disseminated to the concerned employees. Additionally, the employees are required to sign the policy as an undertaking that they have understood the requirements of the policy and will abide by its requirements. The above procedure ensures that the employees are acquainted with their duties under KYC/CDD policy. Apart from the above, the Respondent ensures that all the seminars/awareness session being conducted by PSX/CDC/NCCPL/SECP are being attended by the respective employees. Additionally, no certificates are issued by the organizers and training sessions are conducted on gratis basis. Even records of attendance are not maintained by these organizations. If necessary, the Respondent can submit affidavits of some of the employees to substantiate this fact. The Respondent even enhances the scope of KYC/CDD requirement by periodic in-house training and sessions. The Commission's authorized officers are most welcome to visit such sessions if required for which the Respondent can send advance intimations to the Commission. Moreover, there is no prescribed criteria or timeframes under KYC/CDD Guidelines for training of employees, whereas the Respondent has done more than what is required under the circumstances. Hence, the Respondent does not agree with this observation of the Commission or the Inspection Team.*
- (xi) *The Respondent has prepared the reports for all months as desired under the Circular and find all trades are in line with the expectations and limits as assigned. After preparation and review of the reports, the Respondent assess that no further actions required in regard to the trades. In case any anomaly identified in the trading patterns, the Respondent will take necessary steps as identified in the approved AML program. Apart from the above, the Respondent periodically ensures that list of all major clients is also scrutinized based on their net worth/commission/trades. This certainly helps the company to ensure continuous due diligence of its clients. Further, all the clients as mentioned in the Reports have executed trades in line with the initial assessment. Respondent stated during the hearing that it shall now maintain full record where action or no action is taken relating to customers crossing the threshold under Circular 10 of 2017.*
- (xii) *It is incorrect that Respondent does not have in place proper mechanism to prevent money laundering and countering financing of terrorism. There has not been a single transaction or activity on part of any client that could be regarded as suspicious and no notice has been taken by any regulator or authority involving any client of the Respondent in relation to money-laundering and terrorist financing. This itself is sufficient compliance of the KYC/CDD Guidelines. The Respondent also ensures compliance with all requirements of AML Regulations 2018 in true letter and spirit. So far no transaction whatsoever conducted at or through the Respondent has been found to be fallen in under any of the above criteria and neither the Respondent has or had reasons to suspects that such transactions or pattern of transactions involved or involves the above criteria. However, if at all in future, any such transaction comes to our attention, we will immediately report the same to Financial Monitoring Unit ("FMU"). Moreover, if the Commission suspects any such transaction undertaken at or through the Respondent, the same may please be made known to us, so that we may report such transaction to FMU on the basis of the recommendation of the*





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Commission. As to the Suspicious Transaction Report ("STR"), the Respondent has conferred with its Legal Counsel, who is of the view that such reporting becomes necessary unless the pertinent entity (Respondent in this case) knows, suspects or has reasons to suspect that transaction or a pattern of transaction involves funds derived from illegal activities specified in Section 7 of AML Act. So far no transaction whatsoever conducted at or through the Respondent has been found to be fallen in under any of such criteria and neither the Respondent has or had reasons to suspects that such transactions or pattern of transactions involved or involves the above criteria. However, if at all in future, any such transaction comes to the Respondent's, it will immediately report the same to FMU. On the other hand, there are no means for the Respondent to determine whether a transaction is being effectuated from unlawful funds and such determination does not fall in the realm of the Respondent. According to our Legal Counsel, if the Respondent makes an incorrect reporting on the basis of assumptions and suppositions, then such client can take the Respondent to cleaners by lodging civil and criminal proceedings for defamation and damages for tarnishing the image and reputation of the client.

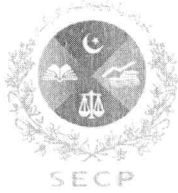
(xiii) If there has been any technical oversight, the same may kindly be condoned in the interest of justice.

6. I have heard the arguments presented by Representative 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) Respondent has accepted that it transpired that the Mr. Qadir Ahmed Khan's status has now changed from nonresident to resident which illustrates that the customer's record was not updated in a timely manner as required by the KYC/CDD Guidelines of PSX. Respondent also accepted that Ms. Amina Lodhi should be High Risk and has accordingly rectified the same. Further, it stated that it does not have any evidence of her source of funds available with it;
- (ii) Respondent has rectified the risk categorization of Elahi Capital and accordingly categorized it as High Risk and also accepted that its profession as brokerage house was inadvertently mentioned which has also been rectified;
- (iii) while the Respondent has stated that it opens accounts based on referrals from existing customers and the Respondent's holding company, however, no evidence has been furnished regarding the same for Khuwaja Kashif Bashir, Muhammad Irfan Majeed and Jawad Yousuf Dar. Non-acceptance of third party cheques/cash, routing of funds through documented channels and maintenance of record under Circular 10 of 2017 does not adequately satisfy the requirement of clause 3.9 of the KYC/CDD Guidelines of PSX. Therefore, it is evident that the Respondent has not ensured compliance with requirements of the said provision for these customers;
- (iv) Respondent has stated that it has emailed Mr. Rahim Roudani to obtain necessary information which illustrates that the Respondent had not performed ongoing due diligence of the said customer; and
- (v) Respondent has stated that it has now transferred an additional employee to the compliance function and is in the process of hiring more resources which exhibits that





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it had an inadequate compliance function in contravention of the KYC/CDD Guidelines of PSX.

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 certain non-compliances in its response and during the course of the hearing, which have been rectified or are being 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.

10. In view of the foregoing, violations of the regulatory framework committed by the Respondent are established. However, it was observed based on the response and during the course of the hearing that the Respondent did not have complete understanding of the regulatory framework. While ignorance of law is not an excuse as the regulatory framework has been in effect since the year 2012, 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. 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.