



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

Through Courier

File No. 1(37) SMD/ADJ/ISB/2018

October 29, 2018

Askari Securities (Private) Limited,
Through its Chief Executive officer,
512, 5th Floor, ISE Tower,
55-B, Jinnah Avenue, Blue Area,
Islamabad.

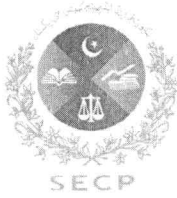
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(37) SMD/ADJ/ISB/2018

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
Askari Securities Limited

<i>Date of Hearing</i>	<i>September 17, 2018</i>
<i>Present at the Hearing</i>	<i>Mr. Faheem Sardar, CEO of Respondent</i> <i>Khazada Mehmood Nasir</i>
<i>Place of Hearing</i>	<i>In person at the SECP, NICL Building, Jinnah Avenue,</i> <i>Blue Area, Islamabad</i>

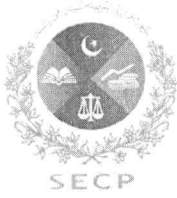
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(37) SMD/ADJ/ISB/2018 dated September 03, 2018. The SCN was served on Askari Securities 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 June 29, 2018 (“Report”) *inter alia* revealed the following:

- (i) It was observed that CTR as required under the KYC/CDD Guidelines of PSX read with the Anti Money Laundering Regulations, 2015 have not been specifically covered in the KYC/CDD/AML policy of the Respondent.
- (ii) As per KYC/CDD Guidelines of PSX, brokers are 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. Broker 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. It was observed that investment profiling of clients has not been documented by the Respondent.
- (iii) Customer information provided by the Respondent does not contain information regarding source of funds and nature of income for the following customer required under the KYC/CDD Guidelines of PSX. The KYC/CDD/AML policy of the Respondent also requires it to obtain information regarding source of funding of the customer and mention it in relevant section of the account opening form.





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Client code	Client Name	Observation	Risk Category as per KYC form
1745	Khurram Muzaffar / Nasim Muzaffar	Nature and source of income not documented. Whereas, Occupation of client is retired person and joint account holder is housewife. Their ledger showing total deposit of Rs2.9 million during August 2017.	Low Risk

Risk categorization has also not been maintained as per the KYC/CDD Guidelines of PSX. Absence of details about source of funds further indicates absence of Enhanced Due Diligence of customers.

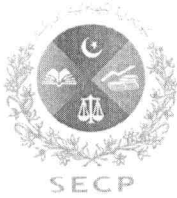
- (iv) The following customers of the Respondent were not marked by it as “Politically Exposed Persons”, as required under the KYC/CDD Guidelines of PSX. This was also accepted by the Respondent and accordingly rectified:

Client Code	Client Name	Designation	Organization	Observation
2024	Mr. Ahmed Qadir	Director General	Competition Commission of Pakistan	a).In KYC form against senior level government position the column has been filled as “NO”. b).And risk category is “Low” c).Thus proper risk categorization has not been done.
2215	Mr. Khurram Qadri	Colonel	Pakistan Army	a). Risk category as per KYC form is low. b).Thus proper risk categorization has not been done.

- (v) Certain customers of the Respondent have been marked as “low-risk/normal” by the Respondent contrary to requirements of the KYC/CDD Guidelines of PSX, as follows. This was also accepted by the Respondent and accordingly rectified:

Sr. #	Title of Account	Trading A/c No.	CDC A/c No.	Risk Category	Residential Status	Risk category as per Guidelines
1	Abid Naeem	2255	21273	Normal	Non-Resident Pakistani	High
2	Salman Ghazanfar Cheema	2285	21547	Normal	Non-Resident Pakistani	High
3	Arshad Mehmud Kaisrani	2289	21588	Normal	Non-Resident Pakistani	High
4	Asad Majeed Waraich	2290	21596	Normal	Non-Resident Pakistani	High





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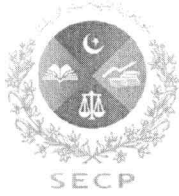
5	The Asian Development Bank	1689		Low Risk	Non-Resident	High
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(vi) It was observed that the profiles of following customers of the Respondent do not match with their high trading volume or bank transactions during the months of July and August 2017:

Client Name		Zahid Hasan		
CDC Account Code		12959		
Ledger Account Code		1419		
Occupation as per CDC set up report		Service		
Date	Amount	Nature of receipts	Cheque number	Observations
10-08-2017	Rs1,000,000	Cheque Deposit	16983247	<p>a). Copy of cheque not provided; only deposit slip and receipt provided to the team</p> <p>b). Client has submitted three cheques of Rs1 million each in a month, his nature of occupation is service,</p> <p>Thus the transaction does not matches with his profile</p> <p>c). No evidence is attached with account opening form regarding employment certificate, however, in CDC sub account opening form the employer name is mentioned as "OGDCL" and his designation is Chief Technical Officer.</p>
17-08-2017	Rs1,000,000	Cheque Deposit	16983250	
24-8-2017	Rs1,000,000	Cheque Deposit	17553674	

Client Name		Niaz Muhammad		
CDC Account Code		16190		
Ledger Account Code		1745		
Occupation as per CDC set up report		Retired Person		
Date	Amount	Nature of receipts	Cheque number	Observations
14-07-2017	Rs60,000	Cheque Deposit	00044384	<p>a). During the month of August 2017 Rs9 million receipts have been recorded in his ledger. Nature of occupation of client is "Retired Person".</p> <p>b). Nature and source of income not documented</p> <p>c). Copy of cheques not provided wherever applicable</p> <p>d). in KYC form risk category defined as Low Risk.</p> <p>e). Thus these transactions does not matches with his profile</p>
07-08-2017	Rs1,000,000	Cheque Deposit	24810	
10-08-2017	Rs2,000,000	Online Deposit		
11-08-2017	Rs1,500,000	Online Deposit	24810	
15-08-2017	Rs1,000,000	Cheque Deposit	24813	
23-08-2017	Rs3,000,000	Cheque Deposit	02377836	
28-08-2017	Rs500,000	Cheque Deposit	18709	





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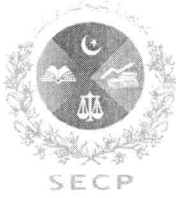
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Client Name		Sardar Muhammad Kamaluddin Khan		
CDC Account Code		18717		
Ledger Account Code		2000		
Occupation as per CDC set up report		Service		
Date	Amount	Nature of receipts	Cheque number	Observations
09-08-2017	Rs2,000,000	Cheque Deposit	02991322	<i>No evidence is attached with account opening form regarding employment certificate, however, in CDC sub account opening form the employer name is mentioned as "Saudi Pak Industrial and Agriculture investment Company Limited" and his designation is CEO.</i>

Client Name		Khurram Muzaffar / Nasim Muzaffar		
CDC Account Code		2042		
Ledger Account Code		278		
Occupation as per CDC set up report		Retired Person		
Date	Amount	Nature of receipts	Cheque number	Observations
04/07/2017	Rs1,698,393.	Online Deposit		a). Nature of occupation of client is "Retired Person" and the occupation of joint holder is house wife. b). Nature and source of income not documented c). Copy of cheques not provided wherever applicable d). in KYC form risk category defined as Low Risk. e). Thus these transactions does not matches with profile of client and its joint holder f). In KYC form of client the risk category mentioned as low g). KYC of joint account holder through KYC form not documented
11/08/2017	Rs2,043,552	Cheque Deposit	5985	
29/08/2017	Rs919,846.	Cheque Deposit	42161396	

(vii) While comparing the records maintained by the Respondent relating to compliance of Circular 10 of 2017 issued by the Commission, with data obtained from NCCPL for all markets for the month of August 2017, it was observed that the following was not included in the records maintained by the Respondent. The Respondent also accepted the same and accordingly rectified its record:





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UIN	UIN_NAME	UIN CLASS	Net Value of Trading (Rs in Million)
3520245491009	MUHAMMAD WAQAR WASI CHAUDRY	Individual	9.4

Since the customer was not included in details related to Circular 10, it appears that evidence of Enhanced Due Diligence of the said customer has also not been documented.

- (viii) As per the KYC/CDD/AML policy of the Respondent, violations or non-compliances are to be reported to the Chief Executive Officer which is contrary to requirements of the KYC/CDD Guidelines of PSX which require the compliance officer to report to the Board of Directors of the brokerage house.
- (ix) In view of absence of customer identification, absence 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 appears that the Respondent does not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.

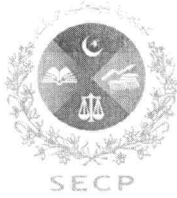
3. It appeared from the foregoing that the Respondent *prima facie* was in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations 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 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. Faheem Sardar, 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) Please know Askari Securities Ltd. ("ASL") answered the observations highlighted in the aforementioned show cause notice vide its letter no. ASL/SECP/588 dated 14 June 2018 in response to SECP Letter No. SMD/SSED/ASLE/201/2017/1029 dated June 7, 2018.
- (ii) ASL's endeavor to follow the rules which is exemplified by our records and history with PSX and SECP.
- (iii) Observations have explanations.
- (iv) If there is any lapse:
a. Rectification has been done.
b. Rectification is being done.
No erroneous or mala fide activity, to the best of our knowledge, happened.





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- (vi) *The higher (regulatory) requirements need automation and considerable system charges, which we are working towards.*
- (vii) *The SECP is requested to afford ASL time and active guidance in any/all observations. ASL is grateful for SECP's kind consideration.*

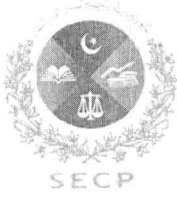
6. I have heard the arguments presented by Representatives of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework and written response filed by the Respondent. The primary allegation against the Respondent is that it was in non-compliance 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) while the Respondent has not furnished detailed response to the SCN, it has referred to its earlier response to the inspection team vide letter of June 14, 2017 wherein it had accepted that:
- a. CTR erroneously left from inclusion in the Policy. Now it will be included;
 - b. KYC forms in relation to Politically Exposed Persons have been corrected;
 - c. Incorrect risk categorizations have been rectified; and
 - d. In relation to Circular 10 of 2017 issued by the Commission, it was admitted that mistake was rectified and new report had been prepared.
- (ii) the KYC/CDD Guidelines of PSX require brokers 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. Broker 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. Respondent in its letter of June 14, 2017 has explained that clients' investment profiling is maintained. A report as per SECP Circular No.10/2017 dated 21-04-17 is prepared regarding clients' trades on the month end and signed by the CEO. Reliance on record maintained in compliance with Circular 10 of 2017 issued by the Commission does not satisfy the above requirement for maintaining investment profiling;
- (iii) the Respondent's KYC/CDD/AML policy requires violations or non-compliances to be reported to the Chief Executive Officer which is contrary to requirements of the KYC/CDD Guidelines of PSX which require the compliance officer to report to the Board of Directors of the brokerage house. While the Respondent had contended in its letter of June 14, 2017 that the compliance report is submitted to the Board of Directors, this should have been mentioned in its policy;
- (iv) 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; and
- (v) while the Respondent has stated that it needs more time to ensure compliance, it must be appreciated that the regulatory framework has been in effect since the year 2012 and the Respondent had sufficient time to comply with the same.

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





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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 accepted several non-compliances and stated that it needs time to ensure compliance with the relevant provisions of applicable laws, 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.