

Before Shauzab Ali, Commissioner (SMD)

In the matter of Show Cause Notice issued to B&B Securities (Pvt) Limited

Date of Hearing

November 05, 2019

Order-Redacted Version

Order dated March 20, 2020 was passed by Commissioner (SMD) in the matter of B&B Securities (Pvt) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated October 25, 2019
2. Name of Company	B&B Securities (Pvt) Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. B&B Securities (Pvt) Limited.
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for violations of inter-alia Regulation 4(a), 4(d), 18(c)(iii), 6(9), 13(5)(a), 13(7), 14(6), 20(a) and 20(b) of AML and CFT Regulations, 2018_ & 16(9)(e) & 16(9)(f) of the Licensing Regulations.
5. Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have examined the submissions of the Respondent and its Representatives. In this regard, I observe that:</p> <p style="margin-left: 40px;">a. With regard to the deficiencies in AML/CFT Policy, the Respondent accepted the observations and submitted that its policy has been updated after the observation was highlighted by the Commission. The primary step to ensure effective implementation of the AML Regulations is to develop a comprehensive AML/CFT Policy which covers all aspects of the AML Regulations. The deficiencies in policies, controls and procedures related to AML/CFT or violation of Regulation 4(a) of the AML Regulations. Further, it also construes as negligence on behalf of the Respondent and its compliance officer who</p>



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is responsible to monitor and review the AML/CFT policies and procedures and highlight any shortcomings therefore, the Respondent was found non-compliant with Regulation 18(c)(iii) of the AML Regulations. The requirements regarding policy are contained in Regulation 4(a) of the AML Regulations and the default thereof is admitted. Furthermore, non-existence of policy is also indicative of the fact that the formulation and implementation of procedures to achieve the policy objectives have also not been prepared and adopted. Lack of sufficient measures and controls in place to ensure compliance with the AML regulatory framework makes the Respondent liable under Regulation 4(a), 18(c)(iii), 6(9), 13(5)(a), 13(7), 14(6), 20(a) and 20(b) of the AML Regulations. Moreover, it may be noted that the review was conducted in June, 2019 which is almost one year after the issuance of the regulations, i.e. June 2018. However, the policy was not updated till the time of review. Therefore I am of the considered view that a year delay indicates weakness in responsiveness on the part of management of the Respondent.

- b. With regard to observation regarding compromise of independence of compliance function on account of co-signing of compliance report by Chief Executive along with Compliance Officer, it needs to be noticed that Regulation 18(a) of the AML Regulations requires reporting of Compliance Officer to the Board of Directors or to another equivalent executive position. Chief Executive Officer is a deemed director who holds an executive position in Respondent, therefore the observation in Review is not tenable.
- c. With regard to the observation regarding the independence of audit function, the Respondent during the hearing agreed to the deficiencies highlighted in its internal audit report. Further, the Respondent provided that they conduct internal audit on half-yearly basis and submitted its internal audit report for half-year ended December, 2018. However, no internal audit report has been submitted for 2019. The internal audit report of the Respondent was also co-signed by its Chief Executive Officer in contravention with Regulation 16(9)(f) of the Licensing Regulations which requires its independent audit function to have direct reporting to the Board of Directors or Audit Committee. This raises concern regarding the independence and effectiveness of internal audit function and its ability to test the AML/CFT systems. Therefore, the Respondent was found non-compliant with Regulation



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	<p>4(d) of the AML Regulations & 16(9)(e) & 16(9)(f) of the Licensing Regulations.</p> <p>In view of the foregoing and admission made by the Representatives, contraventions of the provisions of AML Regulations & Licensing Regulations have been established. Therefore, in terms of powers conferred under Section 40A of the Act, a penalty of Rs. 200,000/- (Rupees two hundred thousand only) is hereby imposed on the Respondent. Further, in terms of powers conferred under Section 150 of the Securities Act 2015, a penalty of Rs. 300,000/- (Rupees three hundred thousand only) is also imposed on the Respondent.</p> <p>Penalty order dated March 20, 2020 was passed by Commissioner (SMD).</p>
6. Penalty Imposed	A penalty of Rs. 500,000/- (Rupees five hundred thousand only) was imposed on the Company in aggregate.
7. Current Status of Order	No appeal was filed.

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