



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Adjudication Department

No. 1(148)SMD/ADJ/KHI/2019

June 10, 2019

BIPL Securities Limited
Through its Chief Executive Officer
5th Floor, Trade Center
I.I. Chundrigar Road
Karachi

SUBJECT: Order in Respect of Show Cause Notice dated May 2, 2019 Bearing Number No. 1(148)SMD/ADJ/KHI/2019

Please find enclosed herewith a copy of an order in the subject matter for your record and necessary action.

Mehwish Naveed
Management Executive



Securities and Exchange Commission of Pakistan
Securities Market Division

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to BIPL Securities (Private) Limited

Date of Hearing	May 9, 2019
Present at the Hearing	i. Mr. Abdul Aziz Anis (Chief Executive Officer)
Representing BIPL Securities (Private) Limited	ii. Mr. Raza Hirani (Head of Operations) iii. Mr. M. Shafiq (Head of Internal Audit)

ORDER

This Order shall dispose of the proceedings initiated through the Show Cause Notice bearing No. 1(148)SMD/ADJ/KHI/2019 dated May 2, 2019 (“SCN”) issued to BIPL Securities (Private) Limited (“Respondent”) by the Securities and Exchange Commission of Pakistan (“Commission”) under section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the “Act”).

2. Brief facts of the case are as follows:

- (a) The Respondent is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (“PSX”) and licensed as a securities broker under the Securities Act, 2015.
- (b) The Joint Inspection Team of PSX, Central Depository Company and National Clearing Company of Pakistan Limited (herein after referred to as “JIT”) conducted an inspection of the Respondent (“Inspection”) to assess its compliance with the regulatory requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (“AML Regulations”).
- (c) The Inspection, *inter alia*, revealed the following:
 - i. Regulation 9(3) requires a regulated person to perform appropriate enhanced due diligence (EDD) measures with customers that are identified as high risk by the regulated person or are notified as such by the Commission. Further, Regulation 9(4) stipulates that such measures include obtaining approval from regulated person’s senior management to establish or continue business relations with such customers. It was observed that the





Securities and Exchange Commission of Pakistan

Securities Market Division

Respondent did not provide approval from its senior management while establishing five (5) of its customers that were categorized as high risk.

- ii. Regulation 14 requires a regulated person to pay special attention to all complex and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions shall as far as possible, be examined, the findings established in writing, and be available to assist the relevant authorities in inspection and investigation. The transactions, which are out of character, are inconsistent with the history, pattern, or normal operation of the account or are not commensurate with the level of income of a customer shall be viewed with suspicion, be properly investigated and referred to Compliance Officer for possible reporting to FMU under the AML Act. The basis of deciding whether an STR is being filed or not shall be documented and kept on record together with all internal findings and analysis done in relation to a suspicion irrespective of the fact that transaction is subsequently reported or not. The Respondent had not documented the reason of its decision to file STR or not in case of one of its client who had deposited and withdrawn Rs. 3 million on same day.
- iii. Circular 10 of 2017 requires the Respondent to maintain record of its clients who had traded in excess of Rs. 5 million during a month. However, the Respondent has not maintained record of four (4) of its clients whose net traded value during a month was greater than Rs. 5 Million.
- iv. Regulation 6 (3)(a) of the AML Regulations, requires a securities broker to identify its customer or beneficial owner and verifying the customer's/beneficial owner's identity based on the documents, data or information in line with CDD requirement. During the review it was observed that the Respondent has failed to conduct CDD of one of its client.

3. It appeared from the preceding that the Respondent *prima facie* acted in contravention of the AML Regulations. Accordingly, the Commission took cognizance of the aforementioned facts and served the SCN requiring the Respondent to explain its stance in person on May 9, 2019. The Respondent submitted its reply vide its letter dated May 9, 2019 reproduced hereunder:

- a) *"We have developed an in-house utility with the ability to provide details necessary to monitor the clients' transaction patterns and trading activities as part of Enhanced Due Diligence. Further, the business relationship with all the highlighted clients has been established / continued with the approval of the senior management. The approval of the Chief Executive Officer of our Company has been obtained on the last page of the KYC/CDD checklist of every client account."*



Securities and Exchange Commission of Pakistan Securities Market Division

- b) *We have an in-house process of monitoring client transaction to identify complex and unusual patterns of transactions as part of on-going monitoring. Doubtful transactions are highlighted and further inquired in line with the knowledge of the customer and level of income. The transactions which are identified as suspicious are than reported to the concerned authorities. The highlighted observation was identified as part of our on-going monitoring: reason was inquired from the client in a follow-up call and his confirmation that the withdrawal was made due to an urgent personal requirement was documented. As already communicated to the Honorable Commission that this was the first instance by the client and although an indication of suspicious activity arouse, as per our judgment it was not sufficient to file a STR. The results of internal findings, our analysis and the conclusion that current situation does not require a STR were sufficiently documented by us internally. We went a step further to evaluate whether the client's financial strength allows him to deposit such an amount. He works as a Project Director and earns a monthly income of Rs 99,000/- with an overall experience of 11 years. Hence, it was concluded that he could have the financial strength to deposit this amount. All of the above was part of the findings that were documented by us. The claim by the Honorable Commission that no record of internal findings was maintained is untrue and accordingly the observations given is not warranted and strongly refuted.*
- c) *The highlighted instances were erroneously missed out in the records maintained of Circular 10 of 2017. These are Institutional IDS clients who do not maintain custody account with us. Further, these are all financial institutions regulated by the SECP/State Bank of Pakistan (SBP). It is also important to highlight here that circular 10 of 2017 issued on April 21, 2017 has been repealed on April 17, 2019 by SECP. We would therefore request the Honorable Commission to take a lenient view in the matter.*
- d) *Corporate Client — A list of directors was obtained at the time of account opening out of which 3 are founding directors. Therefore, the requirement of identification of beneficial ownership has been adequately fulfilled.”*

4. The Respondent was accorded an opportunity of personal hearing dated May 9, 2019. Mr. Abdul Aziz Anis (Chief Executive Officer, Mr. Raza Hirani (Head of Operations) and Mr. M. Shafiq (Head of Internal Audit) (the “**Representative**”) appeared for and on behalf of the Respondent. The Representative while admitting its non-compliances and reiterating the stance as provided in the written response of the Respondent, made the following additional submissions:

- a. The Respondent is in a process of developing software for ongoing monitoring of its clients.

The highlighted client accounts were old, therefore, the Respondent could not gather information such as source of funds. Further, the Respondent claimed that subsequent to the Inspection, it gathered wealth statements to establish source of income, however, the same were not accepted by JIT.



Securities and Exchange Commission of Pakistan
Securities Market Division

c. The Respondent has been providing training to its employee relating to AML Regulations.

5. I have examined the written as well as oral submissions of the Respondent and its Authorized Representative. The Respondent has contested the assertion that it had opened accounts of high risk customers without obtaining approval of the senior management. In support of its contention, the Respondent provided KYC/CDD checklist of five clients containing the initials of its Chief Executive Officer. Therefore, the Respondent is not being held accountable on this count.

6. In regard to the its failure to conduct CDD of one of its client, the Respondent informed that it had obtained gift deed from the client which reflected that the amount was received from the father. Given that the Respondent had noted the mismatch in profile of the client and obtained documents/clarifications, the Respondent is not being held accountable on this account.


7. In regard to its failure to document the basis of its decision to file STR or not in case of one of its client who had deposited and withdrawn Rs. 3 million on same day, the Respondent contended that the said transaction did not qualify to be reported as a STR. Given that the Respondent immediately contacted the client to inquire about the said transaction reflects that the Respondent is aware of the risks associated with such transactions and have systems in place to identify and address such issues.

8. Further, the Respondent admitted its failure to maintain record of four clients whose net traded value during a month was greater than Rs. 5 Million in accordance with the requirements of Circular 10 of 2017. However, given that the said Circular has been repealed, the Respondent is not being held accountable on this count.

9. In view of the foregoing, the proceedings against the Respondent are dropped without any adverse order.

10. 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.




Shauzab Ali
Commissioner (SMD)

Announced on
Islamabad

3-6-2019