

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

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

Date of Hearing

January 17, 2020

**Order-Redacted Version**

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

<b>Nature</b>	<b>Details</b>
1. Date of Action	Show cause notice dated December 13, 2019
2. Name of Company	Darson Securities (Pvt) Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. Darson Securities (Pvt) Limited
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for violations of Regulation 6(3)(c), 9(4), 13(1) & 13(3) of the AML Regulations provided in para 3(d), (e), (f) & (g) of the 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 of the Respondent and its Representatives. In this regard, I observe that:</p> <ul style="list-style-type: none"><li>i. With regard to the vulnerabilities of the Back-Office system and Screening Mechanism:<ul style="list-style-type: none"><li>a. The Respondent submitted that they have 20 legal persons as their corporate clients and they had maintained the details of Directors/ Shareholders/ Beneficial Owners/ Trustees/ Partners/ Members of Social and Welfare Organizations of these clients in excel sheets/ word format before the inspection. The Respondent also provided a list of the same along with their respective CNIC numbers and submitted that they had already performed screening of the said individuals against UNSC/ NACTA proscribed list manually and did not find any true match. Further, with regard to the maintenance</li></ul></li></ul>



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of database for father/ husband in case of individual clients, the Respondent had submitted that such details are only maintained wherein father/ husband have ultimate control of the account as provided in the Regulations otherwise, there is no requirement to contain such details except in case of joint accounts, nominee, authorized persons and beneficial owner of the funds having an ultimate control of the account. With reference to the incomplete list of proscribed persons/ entities issued by UNSC/ NACTA in their system, the Respondent submitted that it was due to the inaccuracy and inefficiency of NACTA's website as it did not contain updated list of proscribed persons/ entities issued through various SROs. The Respondent provided that this concern was also raised during the inspection. Further, the Respondent has taken reasonable steps to update such information in their system by accumulating all notifications manually and incorporating it into their back-office system.

- b. The Respondent also submitted that any new notification regarding proscribed persons/ entities by NACTA/ UNSC was applied to the whole data set of existing customers and new clients were cross checked with the existing list of NACTA/ UNSC that was applied to all existing clients simultaneously. The Respondent also provided that its system has been updated and now incorporates automated screening mechanism for all its existing and new clients.
- c. The Respondent submitted that due to inaccuracy of information available on NACTA Website, the system-based screening mechanism was unable to match individuals/ entities mentioned in UNSC lists. Further, with regard to individuals proscribed under UNSC/ NACTA lists, the Respondent also submitted its excel based working sheet for screening of all its clients and provided that they had not found any true match. The inspection team was also unable to identify any proscribed person/ entity in the client database.

Therefore, with regard to the violation of Regulation 4(a) & 13(7) of the AML Regulations, the Respondent has applied procedures/ controls as per their AML Policy to conduct screening of its clients against proscribed persons/ entities by applying both manual based screening



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	<p>mechanism (before inspection) and subsequently incorporating the same into their back-office system.</p> <p>ii. With regard to the written justification of its low risk clients, the Respondent had submitted that the risk category is determined based on the KYC form which is its self a requisite document for risk justification. The elements of the KYC form are incorporated into their system which automatically assigns risk rating after analysing the details of risk parameters. The Respondent also submitted screen shots of their clients' risk profile in this regard. However, this viewpoint of the Respondent is not tenable. The screenshots of risk profile provided by the Respondent does not indicate the parameters used for the risk categorization of its clients rather it only mentions the risk category. The Respondent therefore, failed to submit written justification for its low risk clients in violation of Regulation 11(2) of the AML Regulations. Further, the Respondent is advised to incorporate a field for providing descriptive justification where the clients are categorized as low risk.</p> <p>iii. With regard to the CNIC expiry alerts, the Respondent during the hearing provided that they had an automated system in place to generate alerts regarding already expired CNICs and CNICs to be expired within 60 days. A screenshot of the system was also provided by the Respondent wherein a query is run on the system to fetch such details. Subsequently, emails are also sent to the clients to provide renewed CNICs. Copy of reminders were also provided as documentary evidence for intimation to its clients regarding their expired CNICs. In view of this, it is observed that the Respondent had applied sufficient measures to detect the expiry of CNICs well before time and also sent regular intimation to its clients regarding expired CNICs.</p> <p>iv. With regard to violation of Regulation 6(3)(c), 9(4), 13(1) &amp; 13(3) of the AML Regulations provided in para 3(d), (e), (f) &amp; (g) of the SCN, the Respondent submitted that it had taken reasonable procedural measures to call for the requisite documents from the clients. In this matter, emails were also sent to clients in October, 2019 to provide for documents/ information about their identification, sources of income, nature of employment etc. to comply with the requirements of the AML Regulations. Further, in one case, the Compliance Officer has also raised concern regarding suspicious transactions in the client</p>
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	<p>account which was reported to the relevant authority and the Commission. The Respondent's reply in this regard is tenable. However, the Respondent failed to take any action against the clients' accounts that were found to be deficient in respect of their KYC/CDD/EDD. Therefore, the Respondent is directed to obtain all such documents regarding their sources of income, employment and other related documents from these clients as per the requirements of the AML Regulations. Further, necessary action should also be taken against these clients' accounts in case of non-provision of information.</p> <p>In the view of the foregoing and the submissions made by the Respondent and in terms of power conferred under Section 40A of SECP Act 1997, I hereby warn the Respondent to be careful in future and ensure meticulous compliance of the AML Regulations.</p> <p>Penalty order dated January 24, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A warning was issued to the Company.
7. Current Status of Order	No appeal was filed.

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