



Securities and Exchange Commission of Pakistan

Adjudication Division
Adjudication Department-I

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

In the matter of Show Cause Notice issued to Friendly Securities (Pvt.) Limited

Dates of Hearing

January 01, 2021

Order-Redacted Version

Order dated January 07, 2021 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Friendly Securities (Pvt.) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated May 20, 2020
2. Name of Company	Friendly Securities (Pvt.) Limited
3. Name of Individual*	The proceedings were initiated against the Company i.e. Friendly securities (Pvt.) Limited
4. Nature of Offence	In view of alleged violations of Regulations 4(a), 7, 10, 9, 20(b), 6(9), 9(b), 9(4)(b), 14(6), 14(5), 18(c)(iii), 29(5), 16(9)(e), and 16(9)(e)(f) of AML Regulations through SCN dated May 20, 2020 and order dated January 07, 2021 was passed.
5. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have examined the submissions made in writing and during the hearing as well as issues highlighted in the show cause notice and requirements of the AML Regulations, the Act and Licensing Regulations and of Securities Act. The facts of the case may be summarized as under</p> <p>i. Review of relevant correspondence of the Company with the concerned BCD revealed that LOF vide dated July 5, 2019 was shared with the Company. In terms of the aforesaid, it was, inter alia, highlighted that the AML Policy was not updated as per requirements of the AML Regulations, as highlighted in the aforesaid paras. The Company in its comments to the LOF, vide email dated July 12, 2019 submitted that: "With reference to the subject we are attached updated policy and board</p>



Securities and Exchange Commission of Pakistan

Adjudication Division Adjudication Department-I

	<p>resolution ". During the hearing proceedings, the compliance manager, being authorized person, also relied on the same updated AML Policy of June 3, 2019, as was furnished to the BCD/inspection team vide email dated July 12, 2019. He did not produce any 4 documentary evidence that the aforesaid Policy and related procedures were updated prior to the date deficiencies were highlighted by the inspection team. Hence, I, am of the considered view that the following requirements of AML Regulations were updated in the AML/CFT Policy and the deficiencies, as given hereunder, highlighted by the inspection team were updated subsequently: (a) beneficial Ownership of I egal Persons and Legal Agreements (b) types of Politically Exposed Persons (PEPS) i.e. foreign and domestic PEPS, and controls to determine if any customer or a beneficial owner is a PEPS (c) enhanced Due Diligence (EDD) measures (d) screening of employees and development of employee training program on annual basis (e) maintenance of list of account where relationship was refused or closed on account of negative verification (f) circumstances leading to high risk of ML/TF does not include donations oriented entities (g) In case of EDD, the sources of wealth and/or funds or beneficial ownership of funds (h) recording of basis of deciding about suspicious transaction report (STR) (h) noting and reporting of STRs (i) high-risk classification factors including real estate dealers, dealers in precious metals and stones, and lawyers/notaries. In view of the aforesaid deficiencies in the AML Policy, at the relevant time of inspection, which were contrary to the requirements of AML Regulations, the compliance officer, also primarily failed to monitor, review and update its AML Policy and procedures. Hence, the Respondents have violated the requirements of Regulation 4(a) and Regulation 18(c)(iii) of the AML Regulations for which penalty have been provided in terms of section 40A of the Act.</p> <p>ii. During the course of hearing proceedings, it was informed that monthly compliance reports were used to be prepared by the Company and the process was started from February 2020 i.e. subsequent to the highlight of violation by the inspection team. In terms of the Regulation 29(5) of the Licensing Regulations, which requires that the compliance officer of the regulated person shall prepare monthly compliance report. The Respondent through reply dated July 7, 2020 also furnished that: "We are not complying this point but after the highlight of this point we are start to comply this point ". I, have also perused relevant information, in terms of which the Company did not submit monthly compliance reports with the inspection team and the same were also not provided during the course of the hearing proceedings, in order to establish its claim, so, I, am of the view that the process of compliance was initiated subsequent to the date it was highlighted by the inspection team. The aforesaid are substantiating evidences that the Respondents have violated the requirements of Regulation 29(5) of the Licensing Regulations for which penalty have been provided in terms of section 150(2) of the Securities Act.</p> <p>iii. As regards to the matter of violation of Regulation 16(9)(e) of the Licensing Regulations, during the course of hearing proceedings, it was</p>
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Adjudication Division Adjudication Department-I

	<p>informed that head of internal audit was designated and that monthly compliance reports were initiated from the month of February 2020. It was also informed that head of internal audit and compliance manager were the same person at the time of inspection. The Company in its written reply also submitted that: <i>"we have independent audit and compliance function having appropriately trained and competent staff but we don't prepare audit report because our CEO is available any time in office."</i> Through the aforesaid reply, the Company reflected its inability to prepare audit reports due to availability issue of the chief executive. I, am also of the concerned view that number of clients is not a criteria for not having independent audit function, rather the compliance in terms of Regulation 16(9)(e) of the Licensing Regulations is mandatory and necessary to mitigate internal control weaknesses of the brokerage house. I, have also perused relevant information, in terms of which the Company did not submit internal audit reports with the inspection team and the same were also not provided during the course of the hearing proceedings, in order to establish its claim. Hence, I, am of the view, at the relevant time of inspection, the Respondent Company, have violated the requirements of Regulation 16(9)(e) of the Licensing Regulations for which penalty is provided in terms of section 150(2) of the Act.</p> <p>In view of the foregoing facts, I, am of the considered view that the Respondents have violated the requirements of the AML Regulations and Licensing Regulations, as narrated in above paras, and steps, if any, were taken subsequent the violations highlighted by the inspection team, and the evidences cited were not sufficient to prove the claim of the Respondents. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 260,000/- (Rupees two hundred and sixty thousand) is hereby imposed on the Respondent Company for contravention of the AML Regulations. Moreover, in terms of powers conferred under section 150 of the Securities Act, a penalty of Rs. 50,000/- (Rupees fifty thousand) is imposed on the Respondent Company for contraventions of Licensing Regulations made under Securities Act.</p> <p>Penalty order dated January 07, 2021 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A Penalty of Rs. 310,000/- (Rupees three Hundred ten Thousand) was imposed on the respondent company to ensure compliance of law in future.
7. Current Status of Order	Appeal has been filed by the respondent company