



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 Shajar Capital Pakistan (Private) Ltd.

Dates of Hearing

January 5, 2021

Order-Redacted Version

Order dated January 08, 2021 was passed by Executive Director/HOD (Adjudication-I) in the matter of Shajar Capital Pakistan (Private) Ltd. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated November 12, 2020
2. Name of Company	Shajar Capital Pakistan (Private) Ltd.
3. Name of Individual*	The proceedings were initiated against the company i.e. Shajar Capital Pakistan (Private) Ltd.
4. Nature of Offence	In view of alleged violation of issued under section 40(A) of the Securities and Exchange Commission of Pakistan (the "Commission") Act, 1997 ("Act") for violations of the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML Regulations") through SCN dated November 12, 2020 and order dated January 08, 2021 was passed.
5. Action Taken	Key findings were reported in the following manner: I have examined the submissions during the hearing as well as issues highlighted in the SCN and requirements of the AML Regulations. The facts of the case may be summarized as under: i. With regard to the deficiencies in its AML/CFT Policy, the Respondent during the hearing provided that there existed some deficiencies in its policy with respect to AML Regulations which were subsequently rectified by the Respondent in June, 2020 after the observation was highlighted by the inspection team. The Respondent's policy was also found outdated with respect to the NRA, 2019. Therefore, the Respondent was found non-compliant with Regulation 4(a) of the AML Regulations. Further, the compliance officer of the Respondent had also failed to monitor,



Securities and Exchange Commission of Pakistan

Adjudication Division Adjudication Department-I

review and update its AML/CFT policies and procedures of the regulated person therefore, in contravention of Regulation 18(c)(iii) of the AML Regulations.

ii. With regard to the risk categorization of its clients, the Respondent during the hearing provided that its risk categorization was not updated in the back-office system however, they have provided risk categorization of all its clients during the review. Review of the list revealed that it only contained names of clients and their residential addresses however, the Respondent had not provided list of its clients who belong to high-risk jurisdictions/ geographical locations during the inspection or along with reply to the LOF. Further, it was also observed that the Respondent had incorrectly categorized some of its clients as low risk while they were foreign nationals or belonged to high-risk jurisdictions areas. In view of the said, the Respondent had not documented assigned risk level to its customers and also failed to categorize customers who belongs to high-risk jurisdiction as high risk customers. The Respondent was therefore, found in contravention of 3(1), 3(2) and 6(8) of the AML Regulations during the inspection.

iii. With regard to the identification of beneficial owners and their screening against UNSC and NACTA lists of proscribed persons, the Respondent during the hearing provided that they were maintaining details of beneficial owners in its forms. However, no centralized database was maintained for screening against proscribed individuals/entities. The Respondent had failed to demonstrate that it was conducting screening of all beneficial owners to identify and direct and indirect relationship with any proscribed persons or entities. No evidence with respect to such screening was produced at the time of inspection. The Respondent was therefore, found in contravention of Regulation 4(a), 13(7) and 15(3) Of the AML Regulations. The Respondent during the hearing provided that this practice has been initiated in June, 2020 and since then screening evidence is maintained with the Respondent.

iv. With regard to the NADRA Verisys of its clients, the Respondent during the hearing provided that biometric verification was already performed through NCCPL. However, it may be noted that the process of verification by NCCPL has started in 2019 subsequent to the promulgation of AML Regulations. The requirement for NADRA Verisys was prescribed under AML Regulations since its inception in June, 2018. The Respondent had failed to demonstrate any efforts made on its part to perform



Securities and Exchange Commission of Pakistan

Adjudication Division Adjudication Department-I

verification for clients and their associated persons CNICs. Further, NCCPL biometric verification does not substitute for the requirement to perform Verisys of clients and other associated individuals as the responsibility for performing Verisys lies with the Respondent. The Respondent is required to perform Verisys for clients and its beneficial owners, nominees, authorized persons, and Board of Directors etc. as per the requirement of Regulation 6(4) read with Annexure I (note i) of the AML Regulations.

v. With regard to the instances regarding identification of source of income/ funds, CDD and EDD of its clients, the Respondent during the hearing submitted that:

a. In the first instance, the Respondent had failed to categorize one of its client's joint account holder as PEP who held a senior political position. The client was rather categorized as low risk. When inquired, the Respondent submitted that subsequent to the observation, the clients risk category has been changed and further information was called from the client however, the documentation was insufficient due to non-cooperation by the client.

b. In other instances, the Respondent during the hearing provided that clients were approached to provide information regarding source of income/ funds however, some documentation is incomplete due to no response. These clients are usually inactive and do not have trading activity in their accounts. It may be noted that most of these clients are categorized as low risk individuals. The Respondent had categorized the customers as low risk without obtaining sufficient information with respect to the CDD as required under Regulation 6 of the AML Regulations. Further, no action was taken with respect to these client accounts who did not response to the repeated requests. The Respondent submitted that some of the information has been collected and they are still under the process of compiling documentation with respect to the source of income/ funds or beneficial ownership which will be completed in the first quarter of 2021.

2. In view of the foregoing and admission made by the Representative, contraventions of the provisions of AML Regulations have been established against the Respondent and its Compliance Officer. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 270,000/- (Rupees Two Hundred and Seventy Thousand Only) is hereby imposed on the Respondent. The Respondent is directed to deposit the aforesaid penalty in the account of the Commission being maintained in the



Securities and Exchange Commission of Pakistan

Adjudication Division Adjudication Department-I

	<p>designated branches of MCB Bank Limited within 30 days of date this Order and furnish the original deposit challan to this Office.</p> <p>3. Further, the Compliance Officer of the Respondent is strictly warned and advised to monitor, review and update its AML Policy and procedures as and when required and also update its database as per the requirements of the AML Regulations. Further, it is also advised to complete the missing information regarding CDD and EDD of its clients on priority basis in the first quarter of 2021.</p> <p>4. This Order is issued without prejudice to any other action that the Commission may initiate against the Company in accordance with the law on the matter subsequently investigated or otherwise brought to the knowledge of the Commission.</p> <p>Penalty order dated January 08, 2021 was passed by Executive Director (Adjudication-I)</p>
6. Penalty Imposed	A Penalty of Rs. 270,000/- (Rupees Two Hundred and Seventy Thousand Only) was imposed on the respondent.
7. Current Status of Order	No Appeal has been filed by the respondent.