

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

In the matter of Show Cause Notice issued to Arif Latif Securities Private Limited

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| Date of Hearing | September 04, 2020 |
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Order-Redacted Version

Order dated October 16, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Arif Latif Securities Private Limited. Relevant details are given as hereunder:

| Nature | Details |
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| <ul style="list-style-type: none">• Date of Action | Show Cause notice dated July 29, 2020. |
| <ul style="list-style-type: none">• Name of Company | Arif Latif Securities Private Limited. |
| <ul style="list-style-type: none">• Name of Individual | The proceedings were initiated against the Company i.e. Arif Latif Securities Private Limited through its Chief Executive Officer. |
| <ul style="list-style-type: none">• Nature of Offence | Proceedings under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997. |
| <ul style="list-style-type: none">• Action Taken | <p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have carefully examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondents. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <ol style="list-style-type: none">For periodic screening of customers and their authorized persons and beneficial owners, it was submitted that the accounts of customers were opened since 2005, and screening was done on monthly basis and was being done manually. The Company provided copies of email dated April 30, 2020 and May 21, 2020 in terms of which 2 screenshots and 24 screenshots, respectively as evidence of periodic screening were furnished to the inspection team member of PSX. A separate copy of email dated May 21, 2020 addressed to PSX, was also furnished containing, inter alia, MS Excel sheet, however revealed that the customer were having 'No beneficial Owners'. As per available records, the inspection team has furnished 4 screenshots in terms of which CNICs of 4 customers of the Company were searched from an MS Excel Sheet containing name of the Proscribed person. As per supporting document the company however submitted copies of email in terms of which screenshots of screening of customers were shared with the inspection team. From the above, it transpires that screening evidence, even if submitted does not substantiate the screening of beneficial owners, or authorized persons or nominees were carried periodically by the Company, in terms of the Regulation 6(5) (a), 6(5) (c) 13(3) and 13(7) of the AML Regulations. |

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| | <ul style="list-style-type: none"><li data-bbox="576 226 1424 772">ii. It has been submitted that the board of directors of the Company in meeting held on November 25, 2019 updated AML/CFT policy. The Company with its reply furnished excerpts of AML Policy, in terms of which the matters related to porous borders falling in the areas of domestic high risk jurisdictions, policy with regard to afghan refugees, assessment of transnational risks, after NRA 2019, were updated. For monthly compliance reports, copies of covering letters addressed to board of directors, informing about compliance reports for the months of January, February and March 2020 were furnished. However, these letters did not contain dates of submission of compliance reports to board, and relevant monthly compliance reports were not annexed. The AML Policy of the Company is subject to review by the supervision team that the policy updating are in accordance with the applicable AML Regulations. Hence, I am of the view that, absence of relevant supporting evidences of monthly compliances reports, are in violations of Regulation 4(a) and Regulation 18(c)(iii) of the AML Regulations and SRO 55(1)/220 dated January 28, 2020.<li data-bbox="576 814 1424 1096">iii. For 13 customers selected on sample basis by the inspection team, the Company subsequent to initiation of inspection, furnished NADRA Verisys reports dated May 19, 2020. Moreover, the Company also furnished a copy of letter dated June 2, 2020 in terms of which request was made to NADRA for provision of procedure to avail NADRA Verisys facility. Hence, steps were taken to ensure compliance subsequent to initiation of inspection. The Company, therefore, during the relevant period of inspection, violated requirements of note (i) of Annexure-I of Regulation 6(4) of the AML Regulations.<li data-bbox="576 1138 1424 1591">iv. For 10 customers, selected on sample basis, who were individuals, the justifications were not documented for categorization of aforesaid clients as "low risk". The Company in its reply to the SCN submitted that inspection team did not demand the justification and instead the Company had categorized its clients and justified in writing. The Company also submitted copies of relevant account forms of 2015 and 2016 in cases of two customers only, in terms of which reason for 'low risk' categorization were provided in the documents, however, for remaining 8 customers, the copies of supporting evidences explaining justifications for 'low risk' categorization were not provided. Hence, in absence of provision of supporting evidence of identified customers to the inspection team at the relevant time of inspection and to the Commission, the Company have violated the requirements of Regulation 11(2) of the AML Regulations.<li data-bbox="576 1633 1424 1879">v. For a client, the copy of bank statement dated May 4, 2020, having balance of Rs. 227,017/- only was furnished. As informed, the client had custody of securities worth Rs. 2.46 million. As per available information, the client had informed that his monthly income was Rs. 150,000. However, the aforesaid was not sufficient evidence of his source of income in absence of relevant bank statement, or tax return, or other property documents of the customer, or wealth statement, if any. The Company, therefore, has not furnished any supporting document, in |
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| | <p>terms of which it can be substantiated that the income of the customer was in commensurate with level of custody amount, hence the Company have violated the requirements of Regulation 6(3) (c), Regulation 13(1) and 13(3) of the AML Regulations.</p> <p>vi. Tax return for the year 2019 and bank statement of another customer, highlighting receipt of salary was provided. Moreover, it was highlighted that mentioned person was employee of renowned industrial organization, however, relevant letter from employer was not provided.</p> <p>In view of the foregoing facts, I am of the considered view that flagrant and multiple violations of the provisions of AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 175,000/- (Rupees One Hundred Seventy Five Thousand only) is hereby imposed on the Respondent. The Respondent Company is hereby also directed to implement measures mitigate ML/TF risks as per requirements of AML Regulations by ensuring compliance of the aforesaid Regulations.</p> <p>Penalty Order dated October 16, 2020 was passed by Executive Director (Adjudication-I).</p> |
| <ul style="list-style-type: none"> Penalty Imposed | <p>Penalty of 175,000/- (<u>Rupees One Hundred Seventy Five Thousand only</u>) was imposed.</p> |
| <ul style="list-style-type: none"> Current Status of Order | <p>Appeal has been filed against the Order.</p> |

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