

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

In the matter of Show Cause Notice issued to Riaz Ahmed Securities Private Limited

Date of Hearing	August 21, 2020
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Order-Redacted Version

Order dated December 21, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Riaz Ahmed Securities Private Limited. Relevant details are given as hereunder:

Nature	Details
• Date of Action	Show Cause notice dated July 09, 2020.
• Name of Company	Riaz Ahmed Securities Private Limited.
• Name of Individual	The proceedings were initiated against the Company i.e. Riaz Ahmed Securities Private Limited through its Chief Executive Officer and Compliance Officer.
• Nature of Offence	Proceedings under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997.
• Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <ol style="list-style-type: none">1. 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:<ol style="list-style-type: none">(i) On the issue of lapse of NADRA Verisys of CNICs of its clients, the Company is of the view that the specified 9 clients are close relatives of the Directors and they have personal and old business relationship with the Company; hence, the CDD measures are neither applicable nor attracted in case of those clients. However, it has been observed that NADRA validation of CNIC is an independent requirement of Note (i) to the Annexure-I to the Regulations read with Regulation 6(4) irrespective of any relations of the clients with the Directors. Though Company has subsequently carried out NADRA validation of CNICs of its specified clients but it was performed after the inspection of the Company. Therefore, the Company has violated the requirement of Note (i) to Annexure-I to the Regulations read with Regulation 6(4) of the Regulations.(ii) The Company did not provide any evidence that monitoring mechanism was in place for carrying out monitoring of accounts/ transactions of its customers and all business relations with its customers on an ongoing basis in order to ensure that the transactions being conducted are consistent with its knowledge about the customer, the customer's business and risk profile, including, the source of funds and updating its records and data. The Company has stated that its customers' portfolio is based on 21 customers including 4 directors and there was no issue

of identity and source of funds as all of them are either relative of the Directors or close friends. However, no such exemption is available under the Regulations to Regulated Persons from applicability of the requirements of monitoring of accounts/ transactions and business relations with its customers. Therefore, failure in monitoring of accounts/ transactions of its clients and business relations constitutes violations of Regulation 6(3) (c) and Regulation 13(1).

(iii) In order to carry out Customer Due Diligence under the Regulations, the Company was required to obtain, inter alia, copies of proof of income/ funds in respect of its specified client. However, the Company did not provide sufficient documentary evidence of source of income/ funds. The occupation of the specified client is marked as a retired person; however, no evidence was provided about nature and source of income/ funds. During the review period, the client has executed buying of the value of Rs.247, 770 and selling of the value Rs. Nil. His CDC holding value is Rs3.57 million as of December 31, 2019. The Company has subsequently provided income tax return of its specified client for the tax year 2019. However, this return was printed on February 13, 2020 i.e. subsequent to issue of inspection order. In view of the above, the Company did not obtain the proof of income/ wealth of its client and the same was obtained after being pointed out by the inspection team. Thus, violation of Regulation 6(3) (c) is established.

(iv) The Company did not provide evidence of screening of customers and their associates on periodic basis and on the basis of SROs received from time to time. The Company informed with the reply of letter of findings that screening of nominees, authorized persons, joint account holders, forward and backward associates from the date of receipt of an SRO is performed and screening of customers is also being performed from the very date of his account opening through the Smart Stock System. The Company would also ensure that complete screening record is printed and kept for compliance purposes. The Company provided documents in respect of specified clients with reply of letter of findings dated June 29, 2020, which show that screening was performed on June 23 and June 25, 2020. Thus, evidences of screening were subsequently generated for inspection team. Further delay in the screening as well as online reporting of response to the SECP's AML Department was observed as the responses from the Company were made with a delay ranging from 1 to 34 Days. Therefore, Company did not maintain the evidence and record relating to verification conducted by it while screening of its customers' database. This practice constitutes violation of Regulation 15(3) of AML /CFT Regulations.

(v) The Company provided its AML/CFT policy which was approved by the Board of Directors of the Company on November 4, 2019. The Company has informed that since it is a continuous process to remove the deficiencies, if any, it is going to revise its AML policy to bring it in line with the latest requirements. However, the policy did not adequately define the Transnational TF Risks. It did not specifically prescribe the method of identification, assessment, monitoring and mitigation of Transnational TF risk. The matters relating to NRA update 2019 such as

porous border and high risk jurisdictions were not included in the Policy. Further, risk Assessment relating to new products, practices and technologies were also not covered in the submitted AML Policy of the Company. These deficiencies constitute violations of Regulation 4(a) of AML Regulations.

(vi) The Company vide email dated June 17, 2020 provided 3 compliance reports (July, November and December 2019) prepared by its Compliance Officer, which consist of one (1) page titled compliance status report wherein areas relating to AML/ CFT were covered only to extent of stating that reporting to relevant authorities has been made. It has been observed that work of compliance officer was limited to external reporting by compliance officer. No evidence of work performed relating to ongoing monitoring was shared with inspection team. Regulations require that all business relations with customers shall be monitored on an ongoing basis to ensure that the transactions are consistent with the regulated person's knowledge of the customer, its business and risk profile and where appropriate, the sources of funds. The Company has acknowledged vide reply of letter to findings the need to further improve its compliance function in line with Regulation 18(c) of AML Regulations. Therefore, default of Regulation 18(c) has been established.

(vii) It was submitted that the Company is vigilantly monitoring its clients as there is no complaint against it and neither any action has been taken against the Company by any authority. However, as per record available with the Commission regarding addition / deletion of names on UN/ NACTA and submission of responses by the Company, it has been noted that out of 165 SROs issued (from 29-07-2019 to 28-02-2020, 82 responses of the Company to SECP's AML Department were delayed ranging from 1 to 34 Days. Therefore, violations of clause (iii) of SRO 245 (I)/2019 dated February 22, 2019 and clause (D) of SRO 55(I)/2020 dated January 28, 2020 have been established.

2. In view of the foregoing facts, I am of the considered view that multiple violations of the provisions of SRO 245(I) 2019 and SRO 55(I)/2020 have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of **Rs. 100,000/- (Rupees One Hundred Thousand only)** is hereby imposed on the Company. The Company is hereby directed to fully implement counter ML and TF measures including but not limited to formulation and implementation of policies, procedures and controls to ensure that the applicable requirements contained in the AML/CFT Regulations, 2018 are meticulously complied in true letter and spirit. It is further directed that the Company shall submit its compliance report to the Brokers Compliance Department, Securities Market Division, Karachi within one month of the date of this Order in respect of all the obligatory measures under the Regulations particularly the required CDD measures in respect

	<p>of its customers, monitoring of accounts/ transactions of its customers and screening of its entire customers' database.</p> <p>Penalty Order dated December 21, 2020 was passed by Executive Director (Adjudication-I).</p>
<ul style="list-style-type: none">• Penalty Imposed	Penalty of 100,000/- (<u>Rupees One Hundred Thousand only</u>) was imposed.
<ul style="list-style-type: none">• Current Status of Order	No appeal has been filed against the Order.

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