



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)
Adjudication Department

Through Courier

File No. 1(60) SMD/ADJ/LHR/2018

October 29, 2018

Equity Master Securities (Pvt) Limited,
Through its Chief Executive officer,
410, 411 & 416, 4th Floor, LSE Building,
Lahore

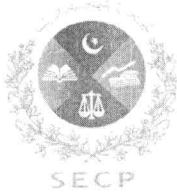
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. File No. 1(60) SMD/ADJ/LHR/2018

Dear Sir,

Please find enclosed herewith a copy of order in the title matter for your record and necessary action.

Yours truly,

Kamal Ali
Additional Director



Securities and Exchange Commission of Pakistan
Securities Market Division

Before the Commissioner (SMD)

In the matter of Show Cause Notice Issued to
Equity Master Securities (Private) Limited

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|-------------------------------|--|
| <i>Date of Hearing</i> | <i>September 24, 2018</i> |
| <i>Present at the Hearing</i> | <i>Muhammad Rafiq, Chief Executive Officer</i> |
| <i>Place of Hearing</i> | <i>Through Video Conference from Regional Office, Lahore</i> |

ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(60) SMD/ADJ/LHR/2018 dated September 03, 2018. The SCN was served on Equity Master Securities (Private) Limited (“**Respondent**”) by the Securities and Exchange Commission of Pakistan (“**Commission**”) under section 150 of the Securities Act, 2015 (“**Securities Act**”). The Respondent is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited (“**PSX**”) and licensed as a securities broker with the Commission under the Securities Act and the Securities Brokers (Licensing and Operations) Regulations, 2016 (“**Brokers Regulations**”).

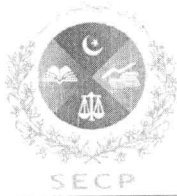
2. Brief facts of the case leading to issuance of SCN are that the Commission vide order dated September 08, 2017, in exercise of the powers conferred under section 138 of the Securities Act, conducted inspection wherein a thematic review of compliance status of regulatory requirements relating to Anti Money Laundering (“**AML**”), Know Your Customer (“**KYC**”) and Customer Due Diligence (“**CDD**”) was carried out of the Respondent. The inspection report dated May 31, 2018 (“**Report**”) *inter alia* revealed the following:

- (i) It appeared that the Respondent’s KYC/CDD/AML policy had not been effectively disseminated to and understood by its personnel, as required under the KYC/CDD Guidelines of PSX, as the Respondent was not able to produce any evidence of such dissemination.
- (ii) It was observed that investment profiling of customers had not been documented by the Respondent as required under the KYC/CDD Guidelines of PSX based on the nature of income, source of funding, location/domicile of customer, etc. As per KYC/CDD/AML policy submitted by the Respondent, the Respondent shall collect and use information on the account holders wealth, and sources of income. However, as per details submitted information is missing in respect of the following. Moreover, details about customers’ nature of investment as required under the regulatory framework had not been mentioned:

| Client | Observations |
|---|---|
| Ameer Ali Khan (client code: 38, CDC Sub Account No. 5345) | 1). KYC form not signed 2). Categorized as Low 3). As per CDC setup report his occupation is business, however no detail is mentioned relating to the nature and other details of business 4). In KYC application form, Income range per annum has been mentioned as 5 to 10 lacks, however, occupation details in this form have not been provided and left blank |



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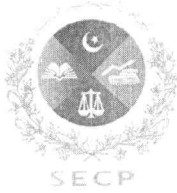
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| | |
|---|---|
| | <p>5). Therefore, source of fund not documented 6). No details are mentioned or documented regarding nature of investment as required by clause 3.6 of PSX Guidelines 7) As per client ledger, an amount of Rs3 million is appearing as receipt on 6-7-2017 from client, however, its due diligence was not documented</p> |
| Muhammad Saeed Anjum (Client code: 260; CDC Sub account number: 3647) | <p>1). KYC form not signed 2). Categorized as Low 3). As per CDC setup report his occupation is business, however no detail is mentioned relating to the nature and other details of business 4). In KYC application form, Income range has not been mentioned, and, occupation details in this form have not been provided and left blank 5). As per NTN certificate his address is appearing as Saeed Traders fertilizer dealers, Ghalla Mandi, Mian Channu, therefore, source of fund not documented 6). No details are mentioned or documented regarding nature of investment as required by clause 3.6 of PSX Guidelines 7) As per client ledger, an amount of Rs.8 million is appearing as receipt on 11-7-2017 from client through online, however, its due diligence was not documented</p> |
| Azhar Mohyuddin (Client code: 1474; CDC Sub Account number: 24387) | <p>1). As per client ledger, an amount of Rs.700,000 is appearing as receipt on 31-7-2017 from client through online, however, its due diligence was not documented 2). In KYC application form, Income range per annum has been mentioned as 1 to 5 lacks, however, occupation details in this form have not been provided and left blank 3). KYC form not signed 4). A blank cheque duly signed by the client is also Attached with the Form 5). As per CDC setup report his occupation is appearing as service, however, no documentary evidence is attached with the account opening form or sub account form. In view of the above, proper due diligence was not carried out.</p> |
| Muhammad Shafiqur Rehman (Client code: 2517; CDC Sub Account number: 26143) | <p>1).As per client ledger for the review period, various payments were received from client through online, however, its due diligence was not documented 2). As per CDC sub account opening form, name of his business is appearing as "Milestone", and job title is "President" and its address is Wapda Town, Lahore. 3). KYC form not signed 4). As per CDC setup report his occupation is appearing as business, however, no documentary evidence is attached with the account opening form or sub account form. In view of the above, proper due diligence was not carried out.</p> |
| Ahtisham ul Haq Khan (Client Code: 2970; CDC Sub Account number: 24924) | <p>1). As per client ledger for the review period, two payments of Rs.500,000 each were received on 21-7-2017 and on 28-7-2017 from client through online, however, its due diligence was not documented 2). A blank cheque duly signed by the client is also attached with the Form 3). In CDC Sub Account form, Income range per annum has been mentioned as Rs.250,000 to Rs.500,000, however, his occupation is mentioned as agriculturist 4). KYC form not signed 5). As per CDC setup report his occupation is appearing as agriculturist, however, no documentary evidence is attached with the account opening form or sub account form. In view of the above, proper due diligence was not carried out.</p> |

Based on information furnished by the Respondent, it was observed that different KYC Forms were used by the Respondent for its customers and there was no standardization. Further, Enhanced Due Diligence was not performed in the case of these five customers as online payments were received by the Respondent from these customers which did not match their Gross Annual Income.

(iii) It was observed that there were instances where customers deposited cash in excess of Rs.25,000 in their accounts on same day but the same were not reported by the





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Respondent to the securities exchange as required under the KYC/CDD Guidelines of PSX. Details of such instances are as follows:

| Sr. No | Date | Name | Client Code | Cash Received |
|--------|------------|-----------------------|-------------|---------------|
| 1 | 04/07/2017 | ABRAR SAEED | 00066 | 30,000 |
| 2 | 09/08/2017 | MUHAMMAD UMAR DRAZ | 00250 | 40,000 |
| 3 | 07/07/2017 | MUHAMMAD ASLAM BHATHI | 00415 | 35,000 |
| 4 | 02/08/2017 | SHEIKH MUBARIK ALI | 00565 | 61,000 |
| 5 | 28/07/2017 | FURQAN SHAKIR | 00719 | 50,000 |
| 6 | 18/08/2017 | SHAHID JAMIL | 00870 | 36,000 |
| 7 | 04/08/2017 | MUHAMMAD NAEEM | 00885 | 45,000 |
| 8 | 07/07/2017 | MUHAMMAD HASSAAN | 00992 | 36,000 |
| 9 | 11/07/2017 | SALEEM RAZA | 01036 | 50,000 |
| 10 | 26/07/2017 | SALEEM RAZA | 01036 | 50,000 |

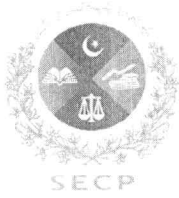
- (iv) The Respondent failed to provide employee wise details of trainings attended by them during July 01, 2016 to September 30, 2017, in relation to understanding their duties under KYC/CDD and ability to perform those duties satisfactorily as required under the KYC/CDD Guidelines of PSX. An attendance sheet of only one training conducted by the Respondent was furnished. Therefore, it *prima facie* appeared that there was a lack of trainings with respect to AML and KYC/CDD on the part of the Respondent. The Respondent was also required to provide evidence of experience of persons relating to/and or responsible for AML/KYC/CDD, however it failed to provide the same.
- (v) As per Circular 10 of 2017 issued by the Commission, brokers are required to maintain record of customers having trading above the prescribed threshold. While reviewing the trading data provided by NCCPL for the month of August 2017, it was noted that certain customers of the Respondent have crossed the minimum threshold as defined under the said Circular. The Respondent provided the list of customers who crossed the minimum threshold in the month of August 2017 which when compared with the data provided by NCCPL revealed that names of different customers were added in the list provided by the Respondent, as exhibited below, which illustrates that the Respondent had *prima facie* failed to maintain the proper list of customers in compliance with the regulatory requirements:

| Clients as per NCCPL Data | Clients as per Data provided by the Respondent |
|---------------------------|--|
| ANJUM SHAHZAD KHAN NIAZI | MUHAMMAD SAEED ANJUM |
| MUHAMMAD SARWAR KHAN | SYED ZAHID ABBAS BOKHARI |
| AWAIS AHMED | MUHAMMAD TAYYAB JAVED KHAN |
| MUHAMMAD RAFIQ | |

- (vi) In view of absence of customer identification, enhanced due diligence and proper training, it appeared that the Respondent did not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.

3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations and





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the Know Your Customer & Customer Due Diligence Guidelines issued by PSX on March 16, 2012.

4. The Commission took cognizance of the aforementioned alleged violations and served the SCN dated September 03, 2018 under section 150 of the Securities Act to the Respondent. The Respondent was called upon to Show Cause in writing within seven days from the date of receipt of the SCN and the case was scheduled for hearing before the undersigned on September 17, 2018. The Respondent filed written reply to the SCN vide letter of September 17, 2018. Hearing in the matter was rescheduled on request of the Respondent and held on September 24, 2018.

5. The submissions made by the Respondent in response of the SCN and verbally during the course of hearing are summarized as under:

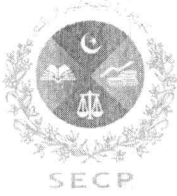
- (i) *Our KYC/CDD/AML policy has been streamlined as per Guidelines of PSX. The formulated policy of AML, KYC and CDD has been disseminated among all concerned, Sales/Accounts/CDC/Settlement/Compliance along with Strict & Mandatory Office Order.*
- (ii) *In relation to investment profiling of customers and nature of investment, we have revised our AML/KYC/CDD Policy and continuing strictly applying and follow this policy including CDD/EDD.*
- (iii) *With reference to accepting cash exceeding Rs.25,000 from customers, now we have dropped this practice to accept such cash and we assure you to strict Compliance in this regard. Cash exceeding the said amount was being collected in a day, however piece meal deposits were made by customers at different times during the day with each voucher not exceeding Rs.25,000.*
- (iv) *We arrange trainings regarding AML/KYC/CDD/EDD of our staff on regular basis to ensure that they understand their duties under KYC/CDD and AML a monitoring cell is developed under compliance department under the supervision of Mr. Tahir Anwar and management in this office.*
- (v) *In relation to Circular 10, it is submitted that the said report was wrongly submitted clubbed both month July and August 2017 instead of August 2017. As per our calculation, Mr. Awais Ahmed did not fall in prescribed threshold during the month of July 2017.*
- (vi) *We humbly request you for taking a lenient view in the light of submission.*

6. I have heard the arguments presented by Representative of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework and written response filed by the Respondent. The primary allegation against the Respondent is that it acted in non-compliance with provisions of the relevant laws mentioned in para 3 above.

7. In order to arrive at a decision, it is essential to consider that:

- (i) evidence furnished by the Respondent for dissemination of policy to employees only pertains to the AML Act, S.R.O. 31(I)/2018 etc. and does not explicitly mentioned the KYC/CDD policy of the Respondent. Hence, it cannot be ascertained if the same has been disseminated to and understood by the employees;
- (ii) Respondent has admitted that it was not documenting investment profiling of customers and their nature of investment as required under section 3.6 and 3.7 of the KYC/CDD Guidelines and has now amended its policy for the same;





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- (iii) Respondent has accepted that it was accepting cash from customers exceeding Rs.25,000 and did not report to PSX due to lack of its understanding of the framework. It has stated that it shall discontinue the said practice; and
- (iv) no documentary evidence, e.g. attendance sheets, training schedules etc., has been furnished by the Respondent to suggest that it has been providing on-going trainings to its employees.

8. Before arriving at a decision, it is pertinent to mention that regulatory requirements relating to KYC/CDD and AML have been implemented since the year 2012 considering the public interest, integrity of the Pakistani capital market and the country's international commitments. Hence, all licensed persons are expected to ensure strict compliance with this regime by remaining vigilant and putting in place requisite policies and procedures to curtail activities relating to money laundering and financing of terrorism. The Commission has adopted a zero tolerance policy towards any gaps in this area and will not show any leniency for non-compliances in future.

9. Based on the above and the fact that the Respondent has accepted certain non-compliances in its response and during the course of the hearing, most of which have been rectified, I have reasons to conclude that it is established that the Respondent was guilty of misconduct in terms of section 150(5) of the Securities Act, as the Respondent is non-compliant with provisions of relevant laws mentioned in para 3 above.

10. In view of the foregoing, violations of the regulatory framework committed by the Respondent are established. However, it was observed based on the response and during the course of the hearing that the Respondent did not have complete understanding of the regulatory framework. While ignorance of law is not an excuse as the regulatory framework has been in effect since the year 2012, since the thematic review of the Respondent for AML, KYC and CDD has been carried out for the first time, I have decided to take a lenient view. Considering the same, no monetary penalty is being imposed, however, the Respondent is strictly warned to ensure compliance with the relevant legal framework.

11. Furthermore, the Commission will carry out a follow-up review within due course of time to assess whether the aforementioned violations have been rectified by the Respondent and in case of continued non-compliance, the Commission shall adopt a stringent course of action.

12. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matter subsequently investigated or otherwise brought to the knowledge of the Commission.




(Shaukat Hussain)
Commissioner

Announced on October 29, 2018
Islamabad.