



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

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*Through Courier*

File No. 1(57) SMD/ADJ/LHR/2018

**October 29, 2018**

**Fairway Securities (Private) Limited,**  
Through its Chief Executive officer,  
45-B-III, Gulberg-III,  
**Lahore.**

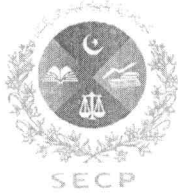
**Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(57) SMD/ADJ/LHR/2018**

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  
Fairway Securities (Private) Limited

<i>Date of Hearing</i>	<i>September 17, 2018</i>
<i>Present at the Hearing</i>	<i>Ali Salman Khan, Compliance Officer of Respondent</i> <i>Tariq Aleem</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office,</i> <i>Lahore</i>

**ORDER**

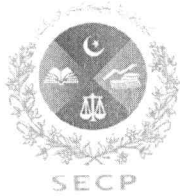
This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(57) SMD/ADJ/LHR/2018 dated September 03, 2018. The SCN was served on Fairway Securities (Private) Limited (“**Respondent**”) by the Securities and Exchange Commission of Pakistan (“**Commission**”) under 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) The KYC/CDD/AML policies provided by the Respondent were incomplete and did not cover the whole policy as required under the KYC/CDD Guidelines of PSX. Furthermore, as per the approved minutes of the Respondent’s Board of Directors the KYC form will be applicable only on new clients which is also against the regulatory requirements.
- (ii) The Respondent failed to provide evidence regarding dissemination of its KYC/CDD and AML policy to its staff hence *prima facie* displaying that the said policies have not been effectively disseminated to and understood by its relevant personnel as required by regulation 4.17 of the PSX Regulations.
- (iii) Investment profiling of clients had not been documented as specified in the KYC/CDD Guidelines of PSX based on the following;
  - a. Customer’s identity,
  - b. Nature of income,
  - c. Source of funding,
  - d. Location/domicile of customer, etc.

As per details submitted, information and details were missing in respect of the following; name or address of business, name of employer, address of employer,





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designation etc. has not been mentioned. Further details such as amount of salary/income were not mentioned. To verify the proper KYC and documentation for client profiling, the Standardized Account Opening Forms (“SAOF”) of few clients were sought from the Respondent. Following were the observations found in the Account Opening forms regarding KYC and client profiling:

Client	Account No.	Observation
Rabia Syed Furqan	0399	- Occupation mentioned as household, source of income not identified.
Maryam Habib	0592	- Occupation mentioned as housewife, source of income not identified.
Bisma Gilani	0474	- Occupation mentioned as housewife, source of income not identified.
Sharoze Ali	0457	- Occupation mentioned as student, source of income not identified.
Tariq Aleem	0024	- Occupation mentioned as service, however no evidence of employment such as; employment letter, is attached with the form.
M. Ahmed Buksh	0225	- Occupation mentioned as business, however no proof of business is attached with the form.

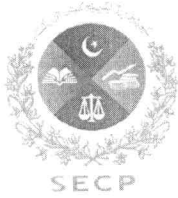
Further, details about customers’ nature of investment as mentioned in clause 3.6 of the guidelines had also not been mentioned.

- (iv) The following customer of the Respondent had been categorized as “Low Risk” contrary to requirements of the KYC/CDD Guidelines of PSX:

Code	Client Name	Type	Risk Categorization by the Respondent	Risk Categorization as per PSX Guidelines
0106	Abdul Mateen Khan	As per UIN Report he is a foreigner	Low	High

- (v) The Respondent did not apply Enhanced Due Diligence when dealing with high-risk customers as required under the KYC/CDD Guidelines of PSX. One such instance was noted in case of a client named Bisma Gilani (Code: 0474). The client falls under the category of Politically Exposed Persons, however, the Respondent did not take reasonable measures to establish the source of wealth and source of funds as the profession of client is mentioned as ‘Housewife’. Further, another instance was noted in case of a client named Rabia Syed Furqan (Code: 0399). This is a foreign client and thus falls under the category of “High Risk” customers, however, the Respondent did not take reasonable measures to establish the source of wealth and source of funds as the profession of client is mentioned as ‘Housewife’. In both the above instances, no evidence of Enhanced Due Diligence was observed.
- (vi) Profiles of the following clients did not match their high trading volume during the months of July and August 2017. Review of client ledger of the following clients for the period from July 1, 2017 to August 31, 2017 also revealed that the clients had traded above the defined threshold prescribed in Circular 10 of 2017, issued by the Commission, in the month of July-17 and Aug-17. The Respondent had *prima facie* failed to categorize these clients according to risk and has also failed to provide





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documentary evidence to prove the source of funds of the said customers as required under the KYC/CDD Guidelines of PSX:

Client Code	Client Name	Occupation	Risk Rating by the Respondent	Documentary Evidence
0362	Irfan Aslam	Industrialist	Low	Documentary evidence to prove source of Fund not provided
0493	Sara Irfan	House Wife	Low	
0250	Syed Ashraf Ud Din	Agriculturist	Low	
0069	Imran Aslam	Industrialist	Low	
0588	Kamran Ejaz	Business	Low	

- (vii) In order to ascertain that the Respondent had provided trainings to its employees and agents to ensure that they understand their duties under KYC/CDD policies and are able to perform those duties satisfactorily, employee wise details of trainings were obtained from the Respondent. Based on the information furnished by the Respondent, it *prima facie* appeared that it failed to conduct trainings of its employees regarding understanding of KYC/CDD as required under clause 11 of the KYC/CDD Guidelines of PSX.
- (viii) As per Circular 10 of 2017 issued by the Commission, brokers are required to maintain record of clients having trading above the prescribed threshold. The list provided by the Respondent for the clients exceeding threshold includes the following clients:

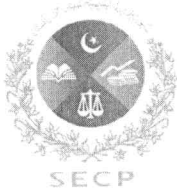
Client Code	Name	Month
0362	Irfan Aslam	July 2017
0493	Sara Irfan	July 2017
0250	Syed Ashraf Ud Din	July 2017 & Aug 2017
0069	Imran Aslam	July 2017 & Aug 2017
0588	Kamran Ejaz	Aug 2017
0009	Nadeem Javed Sheikh	Aug 2017
0024	Tariq Aleem	Aug 2017

In this regard, the following was observed:

- a. Risk category of these clients was not re-considered;
  - b. Enhanced due diligence was not performed; and
  - c. No other action was initiated.
- (ix) In view of absence of customer identification, improper risk assessment and categorization of clients, absence of enhanced due diligence, absence of ongoing due diligence, and absence of proper training, it *prima facie* appeared that adequate checks and controls do not exist to monitor and remain alert regarding suspicious transactions.
- (x) The Respondent appeared to be charging interest on debit balances of clients and recording the charges in a ledger account namely "Advisory Charges". This was observed in the case of various clients including Nadeem Javed Sh. (0009), Shamsa Nadeem & Mohammad Hashim Sheikh (0450) and Muhammad Riaz Chohan (0095).

3. It appeared from the foregoing that the Respondent *prima facie* was in violation of regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Rule 34 of the Securities





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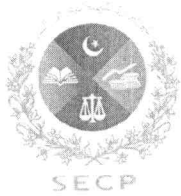
(Leveraged Markets and Pledging) Rules, 2011, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations and the Know Your Customer & Customer Due Diligence Guidelines issued by PSX on March 16, 2012.

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 13, 2018. Hearing in the matter was held on September 17, 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) *We have prepared KYC/CDD/AML according to guidelines of PSX. In our board resolution and approved minutes it is clearly mentioned that KYC form will be applicable on new as well as existing clients.*
- (ii) *We do not have any branch office/agent of our brokerage house and our compliance staff members have been provided copies of AML/KYC/CDD policies by the undersigned in a formal environment.*
- (iii) *We are obtaining source of income from our new clients. However we are also contacting our previous clients to provide their source of income and have achieved our compliance objective partially.*
- (iv) *We opened trading account of Mr. Abdul Mateen Khan as individual on the basis of CNIC provided by him on 08-05-2007. It is possible that afterwards Mr. Abdul Mateen Khan obtained NICOP and opened shares trading account with another broker. That broker should have requested National Clearing Company to change his category from Individual to Foreigner which would have changed the status for all the brokerage houses. Now trading account of Mr Abdul Mateen Khan has been closed.*
- (v) *Ms. Bisma Gillani, daughter in law of Syed Yousaf Raza Gillani (Ex-PM of Pakistan), opened her trading account (0474) with our brokerage house on 24.09.2013. At that time her father in law and his party were not in Government. We are strictly watching her trading account but we have not observed any unusual or suspicious transaction. Also the trading transactions are limited as well. Ms. Bisma Gillani is the ultimate beneficial owner. The other client mentioned by you i.e. Rabia Syed Furqan opened trading account with us on the basis of her NICOP. We are also monitoring ail accounts opened on the basis of NICOP (Foreigner) and no suspicious or unusual transaction has been observed yet. We are maintaining separate list as per compliance requirements.*
- (vi) *All clients mentioned are high net worth client and are well known to us. These clients are maintaining trading accounts since many years. They are regularly trading with us in same pattern and all payments/receipts are made through crossed cheques. However, we keep a close supervision of any transaction that may need more attention.*
- (vii) *Being Compliance Officer I have attended various presentations arranged by PSX/NCCPL/CDC/SECP regarding KYC/CDD/AML etc. as well as some other staff members. I then provided training to trading and back office staff for the same.*





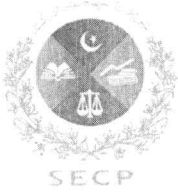
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- (viii) *In compliance to clause 3 of circular 10/2017 we are regularly maintaining summary report according to threshold set by SECP and no suspicious transaction has been observed. The clients mentioned are high net worth clients and they are trading in their usual investment pattern and filing tax returns. All funds movements are carried out through crossed cheques. These clients have good trading history and never default in payment. In our assessment their risk category may remain the same.*
- (ix) *We are strictly monitoring daily trading and we never observed any suspicious/unusual trade. Trading reports are observed by CEO and Compliance Officer on daily basis. All trades are executed on UIN Basis and all traded data is available in NCCPL database. All shares are parked in relevant CDC Sub Accounts. You may appreciate that never ever a doubtful or suspicious trade/activity has been carried out through our brokerage house.*
- (x) *We are not charging interest to our clients. We charge Advisory charges to few clients who require personal consultancy and we pay Punjab Sales Tax on these charges. Most of the accounts with debit balances are never charged as they do not ask for personal consultancy.*

6. I have heard the arguments presented by Representatives 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 was 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) although the Respondent claimed that its KYC/CDD/AML policies have been provided to the staff in a formal environment, no documentary evidence such as acknowledgment from the employees has been furnished as evidence to show that policies have not been effectively disseminated to and understood by its relevant personnel;
  - (ii) since the Respondent is in the process of obtaining relevant information from its existing customers, it had not performed investment profiling of customers due to the absence of such information;
  - (iii) accurate risk categorization of customers is a responsibility of every securities broker and is part of its on-going due diligence requirements. In the case of customer namely Abdul Mateen Khan the Respondent should have accurately categorized the customer in terms of requirements of the law;
  - (iv) in the case of Bisma Gillani and Rabia Syed Furqan, since both are High Risk customers in terms of the KYC/CDD Guidelines of PSX, reasonable measures should have been taken by the Respondent to establish the source of wealth and source of funds;
  - (v) with reference to para 2(vi) above, the Respondent has not furnished the source of funds of the relevant customers which is essential for maintaining risk categorization;
  - (vi) the Respondent has not furnished any documentary evidence to show that it has provided trainings to its employees and agents to ensure that they understand their duties under KYC/CDD policies and are able to perform those duties satisfactorily;
  - (vii) due to the above and certain non-compliances that were accepted by the Respondent, it could not have been possible for it to have adequate checks and controls to monitor and remain alert regarding suspicious transactions; and





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(viii) since the Respondent allowed some of its customers to have debit balances and was charging additional charges to such customers, it is evident that the Respondent was charging interest for maintaining debit balances in the accounts of customers.

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 some non-compliances in its response and during the course of the hearing, some 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.