

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

In the matter of Show Cause Notice issued to Fawad Yusuf Securities (Pvt) Limited

Date of Hearing

March 13, 2020

Order-Redacted Version

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

Nature	Details
1. Date of Action	Show cause notice dated February 07, 2020
2. Name of Company	Fawad Yusuf Securities (Pvt) Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. Fawad Yusuf Securities (Pvt) Limited
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for violations of inter-alia Regulation 6(4) read with Annexure-I and Regulation 6(3)(a), 6(7), 9(4)(b) and 13(1) of AML and CFT Regulations, 2018
5. Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have examined the submissions and arguments of the Company and Authorized Representatives in light of the requirements of applicable provisions of the Regulations. The Company's response dated November 13, 2019 on the findings of the thematic review was definitely taken into consideration while issuing the SCN. I am of the considered view that the Company did not ensure its compliance with the mandatory provisions of the Regulations as detailed hereunder:</p> <p>(i) It was submitted that the Company was screening more than double the number of its clients. No specific instance has been identified wherein beneficial owners, joint account holder, board of directors and nominee of its customers have not been screened. The submissions of the Respondents, in this regard, are tenable.</p> <p>(ii) The Respondents submitted copies of NADRA Verisys obtained on February 24, 2020 in respect of 13 sample cases along with its</p>



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	<p>reply. Acquisition of Verisys on the mention date indicates that customer's accounts were opened without verification of identity documents through NADRA Verisys. The Regulations specifically require validation of identity documentation through NADRA Verisys. CNIC presented before the Company cannot be construed as original without due verification. Therefore, violations of Regulation 6(4) read with Annexure-I to the Regulations are established.</p> <p>(iii) The Company has subsequently obtained identity documents of beneficial owners or joint account holders of 7 specified sample cases of individual customers as a remedial measure. However, the Company failed to verify the identity of beneficial owners or joint account holders using independent or reliable sources prior to raising the observation by the inspection team. Therefore, violation of Regulation 6(3)(a) is established.</p> <p>(iv) The Company did not carry out an ongoing monitoring in the case of an account of a retired individual. Source of income cannot be established through copy of his available bank statement in order to ensure that the transactions in his account are consistent with its knowledge about the customer, his business and risk profile and sources of funds. Thus, violation of Regulation 13(1) is established.</p> <p>(v) In case of 2 individual customers of the Company, who are salaried persons, an attested copy of their service card or certificate or letter on letterhead of the employer had not been obtained at the time of establishing the relationship. Though the documents were obtained subsequent to the inspection findings but the Company failed to obtain the requisite documents at the time of opening their accounts which resulted in violation of Regulation 6(4).</p> <p>(vi) In the case of a female client (a housewife who is categorized as high risk customer with custody value of Rs. 1.9 million), the Company has subsequently obtained a copy each of 3 gift deeds executed in her favour in respect of transfer of funds. However, the Company did not establish the sources of wealth/funds or beneficial ownership of funds including its own assessment to this effect, which were required to be undertaken in respect of the high</p>
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	<p>risk client as part of EDD. Therefore, violation of Regulation 9(4)(b) was made.</p> <p>(vii) Copy of Resolution dated July 29, 2019 passed by the Board of Directors of a corporate client of the Company does not specifically give authority to the authorized signatories to open an account with the Company. Therefore, compliance with Regulation 6(7) has not been ensured in the case of the said corporate client.</p> <p>In view of the foregoing reasons, I am of the considered view that multiple violations of the applicable provisions of Regulations, as narrated in the foregoing para 8, have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 650,000/- (Rupees six hundred and fifty 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/EDD measures in respect of its customers, monitoring of accounts/ transactions of its customers and screening of its entire customers' database.</p> <p>Penalty order dated April 21, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A penalty of Rs. 650,000/- (Rupees six hundred and fifty thousand only) was imposed on the Company.
7. Current Status of Order	An appeal has been filed against this order.

Redacted version issued for placement on the website of the Commission.