



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

Through Courier

File No. 1(131) SMD/ADJ/KHI/2018

October 29, 2018

Fortune Securities Limited,
Through its Chief Executive officer,
3rd Floor, Razi Tower, BC-13, Block # 9,
KDA Scheme # 5, Clifton,
Karachi.

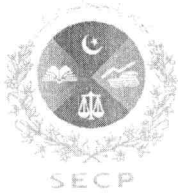
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(131) SMD/ADJ/KHI/2018

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
Fortune Securities Limited

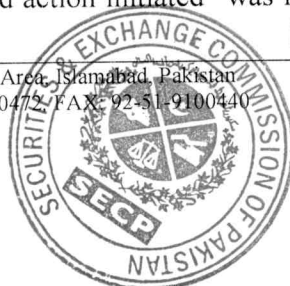
<i>Date of Hearing</i>	<i>September 26, 2018</i>
<i>Present at the Hearing</i>	<i>Anis ur Rahman, CEO</i> <i>Fazal Mehmood Malik, COO</i> <i>Babur Khaliq, Head of Settlements</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office,</i> <i>Karachi</i>

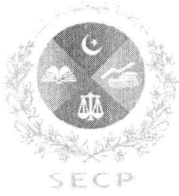
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(131) SMD/ADJ/KHI/2018 dated September 03, 2018. The SCN was served on Fortune Securities 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 11, 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 April 30, 2018 (“**Report**”) *inter alia* revealed the following:

- (i) Based on review of the KYC/CDD policy of the Respondent it was observed that the approved manual was not comprehensive and did not cover KYC/CDD Checklist attached at Annexure-A with KYC/CDD Guidelines of PSX. Further, the prescribed checklist had not been signed by customer of the Respondent. A brief KYC form was attached with Account Opening Forms which lacked all the contents as specified in the KYC/CDD Guidelines of PSX. The Respondent accepted the same and also furnished a revised version of its KYC/CDD policy. Further, as per KYC/CDD Guidelines of PSX many important aspects, such as physical verification and risk categorization of customers had not been documented by the Respondent.
- (ii) As per Circular 10 of 2017 issued by the Commission, brokers are required to maintain record of customers having trades above the prescribed threshold. While reviewing the trading data provided by NCCPL for the month of July and August 2017, it was noted that the following customers of the Respondent had crossed the minimum threshold as defined under the said Circular. It was noted that the said customers were initially marked as Low and Medium, based on aforesaid threshold and (i) column of “Compliance status and action initiated” was left as “Blank”, (ii)





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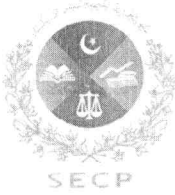
column of revised category had been reported as “Blank”, (iii) Enhanced Due Diligence was not performed and evidence was not provided, and (iv) column of action initiated had been reported as “Blank”:

UIN	INVESTMENT	NAME	RISK (INI.)	RISK (REV.)	COMPLIANCE STATUS	ACTION INITIATED
144	784,807,380	DAWOOD CORPORATION (PVT.) LTD.	L			
88025	82,826,024	MAPLE LEAF CAPITAL LIMITED	L			
1026	129,845,807	UNITED BANK LIMITED	L			
39082	27,839,962	MASOOD FABRICS LIMITED	L			
43718	59,287,270	ROOMI FABRICS LIMITED	L			
0044252-03	27,123,951	ATLAS STOCK MARKET FUND.	L			
4230132440739	10,861,916	FAISAL BENGALI	L			
4220107016671	30,305,520	MOHAMMAD ASHRAF TUMBI (JOINT A/C)	L			
3520102977979	20,015,289	ABDUL SAMAD DAWOOD	L			
4220107122121	9,858,168	SHARJIL ANWAR	L			
36302-1434522-9	14,952,445	KHAWAJA JALAL UD DIN	M			
42000-0383772-1	18,086,458	ASIF AMANULLAH KHANANI	L			
42301-6855505-1	30,833,989	KAMRAN AHMED KHALILI	M			

(iii) It was observed in the case of the following customers that the Respondent had not taken reasonable care to establish proper profile of its customers. Missing information included detail and nature of occupation of the customers, proof of employment, nature of business and source of income not attached with Account opening forms. Further, KYC forms of the said customers were also not filled whereby no evidence was available relating to physical presence of the customer at the time of account opening as required in the KYC/CDD Guidelines of PSX. This information was required to be obtained in terms of requirements of the KYC/CDD Guidelines of PSX for proper customer profiling and risk assessment. Without such information, it appeared that the Respondent had not done proper profiling and risk assessment of its customers:

- a. Shoaib Razzak Makkad: source of income/proof of business not attached and specified KYC form not filled.
- b. Asian Corporative Society Ltd, is an institution: list of directors is not attached with account opening form and requisite KYC form not filled.
- c. Almas Salim, marked as House Wife: source of income/proof of business not attached and specified KYC form not filled.
- d. Mrs. Karimeh Shiraz Lalani, a house wife: source of income not attached and specified KYC form not filled.





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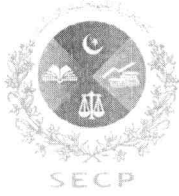
- (iv) The Respondent had not documented risk appetite of its customers and their source of funding. For instance, customers namely Almas Salim and Mrs. Karimeh Shiraz Lalani are high net worth individuals and marked as housewife but the Respondent had not ascertained their source of income, contrary to requirements of the KYC/CDD Guidelines of PSX. Lack of customer profiling may lead to improper risk assessment and categorization.
- (v) It was observed that the Respondent had not conducted proper customer risk categorization based on customer's identity, nature of income, source of funding, location/domicile of customer, etc. For instance the following online customers had been marked as Low Risk or Medium Risk whereas, the KYC/CDD Guidelines of PSX require such customers to be marked as High Risk:
- Abdul Samad Dawood -Low
 - Sharjil Anwar - Low
 - Karimeh Shiraz Lalani - Low
 - Muhammad Iqbal Vakil-Medium

Further, the following corporate legal entities had also been marked as Low Risk to Medium Risk contrary to requirements of the KYC/CDD Guidelines of PSX:

S. No	Name of clients	Risk categorized by Respondent	As per guideline
1	DAWOOD CORPORATION (PVT.) LTD.	Low Risk	High
2	HAJIANI HANIFA BAI MEMORIAL SOCIETY	Low Risk	High
3	MAGM HOLDINGS (PVT) LTD	Low Risk	High

- (vi) The Respondent had marked one of its customers namely Shoaib Razzak Makkad (Client code P470) as High Risk, however the following documentary evidence was found to be absent. The Respondent accepted the same and informed that it had subsequently changed its modus operandi:
- No proof provided/attached with the account opening form that approval of senior management was obtained to open High Risk account as required by the KYC/CDD Guidelines of PSX.
 - No documentary evidence was available with the account opening form to establish the source of wealth and source of funds as required by the KYC/CDD Guidelines of PSX.
- (vii) The Respondent informed that, "No employee has attended any training during the period of July 01, 2016 to September 30, 2017". This was prima facie non-compliance with the KYC/CDD Guidelines of PSX which require brokers to develop an on-going employee training program to ensure that the employees understand their duties and are able to perform the same on a satisfactory level.
- (viii) The Respondent furnished compliance reports for the months of July and August 2017 which revealed that they were signed by compliance officer without indication and proof that this was shared with the Board of Directors of the Respondent. Further, no area relating to KYC/CDD was reported therein. As per requirements of KYC/CDD Guidelines of PSX, it is the responsibility of the compliance function to ensure that KYC/CDD Guidelines are being complied with as well as with other regulatory requirements. This includes maintaining record of violations / non-compliance identified which has to be reported to the Board of Directors. Any such record has to be available for inspection by the Commission and the securities exchange as and





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- when required. Records of non-compliances were not maintained by the Respondent. The Respondent accepted the same and informed that it shall be rectified.
- (ix) In view of absence of customer identification, improper risk assessment and categorization of clients, absence of enhanced due diligence, absence of training of employees, ineffective compliance function and ongoing due diligence of customers, it appeared that the Respondent did not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.

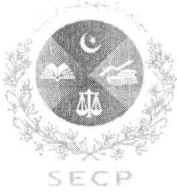
3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations and 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 24, 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 26, 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) *With our reply dated November 16, 2017 we had submitted our KYC and CD Policy to the Commission. Later on upon an inquiry of AML and CFT; we submitted the revised AML & KYC/CDD Policy to the Commission. With the emergence of Securities and Exchange of Pakistan (Anti Money Laundering and Counter Financing of Terrorism) Regulations, 2018, the PSX Guidelines to its member concerning KYC/CDD has been repealed through PSX notice No. PSX/N-4634 dated August 10, 2018. Revised and updated Anti-money Laundering and Countering Financing of Terrorism Policy is furnished. Our responses mostly supported with the KYC/CDD Guidelines of PSX since reference of all non-compliances have been given in your showcase notice from said Guidelines of PSX. All missing aspects have been addressed in the revised policy.*
- (ii) *Pursuant to Circular 10 of 2017, we are presenting the data of 13 clients as mentioned in the notice & with dully filled columns. Since September 2017, we are preparing month-wise data for all clients who have exceeded the threshold of net buy position as mentioned in the said circular along with all columns filled. Respondent accepted in the hearing that it has rectified non-compliance with Circular 10 post-inspection.*
- (iii) *We have developed comprehensive policies and procedures in line with SECP Anti-money Laundering and Countering Financing of Terrorism to identify clients and their risk profile at the time account opening. We require utmost information from clients as specified in said Guidelines and take reasonable care to establish profiles and risk assessment of our customers. Following is our response for the clients mentioned in your letter:*
- a. *Mr. Shoaib Razzak Makkad: When his account was highlighted as not having a source of income we asked the client and he has provided us with the name of*



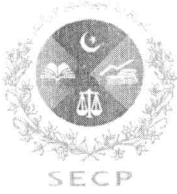


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his company "Combined Builders and Developers Private Limited" which is registered with the SECP. We have however placed him in the high Risk Category as he had originally not provided us with this information. Since moving him to the High Risk Category the client has to date not traded with us. KYC/CDD Checklist form is furnished.

- b. Asian Cooperative Society Limited: List of Managing Committee and new KYC/CDD Form is furnished.
 - c. Almas Salim: Our client, Mrs. Alma Salim is the wife of Salim Amanullah, and her account No. P372 is a joint account with her husband. Mr. Salim Amanullah who is a well-known businessman (Owner of famous tea brand).
 - d. Mrs. Karimeh Shiraz Lalani: Mrs. Karimeh Shiraz, is a housewife. Her sons Noor Lalani and Rahim Sheraz Lalani are known to us. She has mentioned in her account opening form that her source of income is savings and she has operated within the threshold level indicated in the form. After her name was highlighted in the Letter of Findings by SECP, we changed her risk category to High. New KYC/CDD Checklist Form is furnished.
- (iv) Initially Almas Salim and Mrs. Karimeh were categorized as Medium and Low risk clients but due of non-availability of proof of source of incomes (as prescribed in PSX guidelines) we have changed their categories from "Medium Risk" to "High Risk" categories. We are also monitoring the quantum and patterns of their trades, receipt and payments of clients. Further, pursuant to PSX Guidelines, we have obtained senior management approval for the change of risk category and retaining business relationships.
- (v) Our clients namely Abdul Samad Dawood, Sharjil Anwar, and Muhammad Iqbal Vakil are not online client. Neither these clients fall in High Risk category of person specified in PSX Guideline. Therefore we categorized them into low or medium risk categories. Further Mr. Abdul Samad Dawood and Sharjil Anwar has provided proof of their employment (Business Cards attached). Only Mrs. Karimeh Shiraz Lalani has been shifted to High Risk category due to the reason that she did not clearly identified the source of income. Further, the reasons mentioned in our reply dated November 16, 2017 support our instance. Dawood Corporation (Pvt.) Limited we revisited the entire AOF and documents of Dawood Corporation, we understand that we have no reason to categorize this client in to other risk category except low risk. Hajiani Hanifa Bai Memorial Society, a trust owned by the Dawood Group, was initially categorized into Low Risk category however in compliance with the PSX Guidelines this has subsequently marked as High Risk client. Copy of KYC /CDD Checklist Form is furnished. In case of MAGM Holdings (Pvt.) Limited, refer to our reply on dated November 16,2017, we had described the reasons behind categorizing this client as Low Risk because no activity had been taken place and this is view only client having no UIN opened.
- (vi) Senior management approval has been obtained for opening account of Shoaib Razzak Makkad.
- (vii) Concerned employees are appraised regularly whenever any new guidelines, Circulars, Act or Regulations come into force by Regulators. We have already issued AML policy to all employees in 2016. Presentation related to the previous KYC/CDD policies were given to senior management in 1Q2018. Since the new Policy was promulgated last month, we are now in process to hold a full-day in-house training session for all employee on new SECP Anti-money Laundering & Countering





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Financing of Terrorism Regulations, 2018. For this purpose we have distributed the synopsis of said regulations among employees to be familiar before the said training session. Further we have developed itinerary for on-going training programs for employees in order to enhance their skills for the better performance of their duties.

(viii) As replied via our letter dated November 16, 2017 along with supporting Organizational Chart; Compliance Officer reports to the Board of Directors and monthly compliance reports are presented to the Board in hardcopy form. Further, monthly compliance reports regularly cover the AML & CFT compliance status. (Compliance report for the month of August-2018 is furnished)

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:

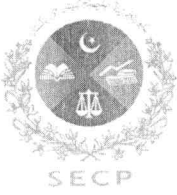
- (i) Respondent in its response has accepted that it revised its KYC/CDD policy based on observations of the inspection team which were missing some aspects earlier;
- (ii) in relation to establishing customer profiles, the Respondent has now furnished certain information including new KYC/CDD checklist, source of income etc.;
- (iii) Respondent has accepted that it does not have any proof of source of income for Almas Salim and Mrs. Karimeh which is a basic requirement for KYC/CDD of any customer under the law;
- (iv) Respondent has accepted inaccurate risk categorizations of certain customers and has accordingly re-categorized them; and
- (v) only compliance report for the month of August 2018 has been furnished which exhibits that monthly compliance reports were not being maintained earlier as required by the KYC/CDD Guidelines of PSX.

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, which shall be 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



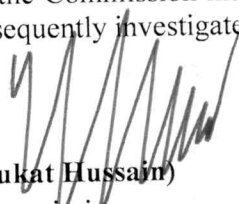


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has been in effect since the year 2012, since the thematic review of the Respondent for AML, KYC and CDD has been carried out for the first time, I have decided to take a lenient view. Considering the same, no monetary penalty is being imposed, however, 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.