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

In the matter of Show Cause Notice issued to HBL Asset Management Limited

Date of Hearing	June 16, 2020

Order-Redacted Version

Order dated July 13, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of HBL Asset Management Limited (HBL-AMC). Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated April 27, 2020
2. Name of Company	HBL Asset Management Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. HBL-AMC
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for violations of inter-alia Regulation 6(3), 6(5a), 6(8), 9(4), 13(3) and 13(7) of AML and CFT Regulations, 2018
5. Action Taken	Key findings of default of Regulations were reported in the following manner: I have examined the facts of the case, considered the written responses along with documentary evidence placed on record and the arguments put forth by the Respondent Company. I am of the view that the arguments submitted by HBL-AMC are not tenable. i. HBLAML in its reply to the show cause notice stated that as per the existing practice, details of nominees are entered in the unit holders register only on provision of valid CNIC copies. The database as well as unit holders' register does not reflect the details of nominees/beneficial owners because of non-availability of their CNIC copies. Such deficiencies is likely to result in ineffective / inadequate screening, which is prima facie in violation of Regulations 6(5a) and 13(7) of SECP (AML / CFT) Regulations, 2018 as it exposes HBLAML to a potential risk of forming relationship with individual / entities in sanctioned / proscribed lists of UNSC / NACTA. The lapse also indicated a weakness in understanding of HBL-AMC with regards to

	Regulations 6(5a) which clearly stipulates that HBL-AMC was required to refrain from forming business relationships with individuals that were proscribed under the Anti-Terrorism Act, 1997 and associates/ facilitators of those persons. This would have only been possible if CNICs of the nominees was being obtained as a practice. ii. HBL-AMC's argument that activities for updating the information relating to directors/trustees/members of corporate clients have been initiated soon after it submitted the response dated December 31, 2019 in respect of "letter of findings" issued by inspection team of SECP, is not tenable. The AMC needs to realize that in the absence of requisite documents/information, the screening of unitholder database is rendered ineffective and does not serve the purpose/objective of screening of unitholders/beneficial owners completely. The absence of such critical information is likely to expose the Company to inefficient screening of its customers with SROs/notifications issued by NACTA/provincial governments/ Ministry of Foreign Affairs, etc. iii. Further, in terms of regulation 13(7) of the AML and CFT Regulations, HBL-AMC was required to monitor its relationships with the entities/individuals mentioned in sub-regulation (5a) of regulation 6, on a continuous basis. HBL-AMC was required to ensure that no such relationship existed directly or indirectly, through ultimate control of an account and where any such relationship was found, it was required to take immediate action as per law, including freezing the funds and assets of such proscribed entity/individual and reporting to the Commission. The circumstances narrated above indicate that no such monitoring was being done which resulted in the contravention of the subject AML Regulations. iv. The argument of HBL-AMC in regards to violation of requirements of regulation 6(8) and regulation 13(3) of the Regulations is accepted to the extent that the possibility of assigning varying risk categories to a single investor because of multiple folios emanated from insufficient or varying information relating to legacy accounts/folios. In addition, the multiple folios had also arisen mostly because of the common investors at the time of merger of erstwhile PICIC Asset Management Company Limited with HBL-AMC. However attention is drawn to the fact that the AML and CFT Regulations were effective immediately after their issuance and warranted that HBL-AMC initiate the process at its earliest. Had the company done so, all discrepancies/deficiencies of the legacy accounts as well as alignment of pre-merger and post-merger folios would have been removed by the time the inspection took place. Such a delay indicates weakness in responsiveness of the

	management. In my view, HBL-AMC is an asset management company with a sizeable customer base and it is obligated to ensure that it is implementing the AML and CFT Regulations in letter and spirit. v. HBL-AMC had also violated Regulation 6(3)(a) of the AML and CFT Regulations, since in cases of two different clients, documents for assessment of ultimate beneficial ownership had not been obtained, while the Regulation stipulates the requirement of customer due diligence (CDD), i.e., identifying the customer or beneficial owner and verifying the customer's/ beneficial owner's identity on the basis of documents, data or information obtained from customer and/or from reliable and independent sources. It is pertinent to mention that at the time of the purported Inspection, the contravention existed and it was later on through correspondence that the deficient documents were provided to the team. vi. As far as the mode of risk categorization being practiced by HBL-AMC is concerned, there is a need to make it more transparent, since currently, it is assigning two different categories to a single customer, without clearly explaining the reasons, which appears to be a dichotomy. It is hence concluded, that the AMC needs to take cognizance of existing procedures and systems and take steps to expedite compliance with the AML and CFT regulatory framework. Apart from the data cleansing activity, HBL AMC needs to make continuous efforts to ensure completeness and accuracy of client related data, in order to harmonize the investor information and remove the possibilities of difference in risk categories and all other matters highlighted above. Based on my observation at para 6 above, I am of the considered view that leniency on non-compliance towards requirement of Regulation 6(5a), Regulation 6(3), Regulation 6(8), Regulation 9(4), Regulation 13(3) and Regulation 13(7) of the AML and CFT Regulations of AML and CFT Regulations, is not possible since SECP is responsible for ensuring implementation and enforcement of the applicable regulatory framework by the entities that fall under its regulatory ambit. Therefore, I hereby conclude the proceedings initiated under Section 40A of the SECP Act, 1997 by imposing

	an aggregate fine of Rs 500,000/-. (Rupees Five hundred thousand only) on the Respondent. Penalty order dated July 13, 2020 was passed by Executive Director (Adjudication-I).
6. Penalty Imposed	A penalty of Rs. 500,000/- (Rupees five hundred thousand only) was imposed on the Company.
7. Current Status of Order	No appeal was filed.

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