

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

**In the matter of Show Cause Notice issued to M/s. Highland Securities (Pvt.) Limited**

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Date of Hearing

September 02, 2020

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**Order-Redacted Version**

Order dated September 15, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Highland Securities (Pvt.) Limited. Relevant details are given as hereunder:

<b>Nature</b>	<b>Details</b>
1. Date of Action	Show cause notice dated July 13, 2020
2. Name of Company	Highland Securities (Pvt.) Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. Highland Securities (Pvt.) Limited.
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for the violations of Regulation 6(4), 6(5), 6(3)(c), 10(1) & (3), 9(4) and 15(3) of the 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 written as well as oral submissions of the authorized representatives of the Respondent. In this regard, I observe that:</p> <ul style="list-style-type: none"><li>i. As regards to the periodic screening, the Respondent vide reply dated August 22, 2020 has submitted fortnightly screening report of NCCPL and copies of snapshots generated on various lists of United Nations Security Council consolidation lists as evidence that clients of the Respondent were not mentioned in various given lists. The Respondent also provided copies of screenshots of search of few CNIC numbers in the database maintained, evidencing that proscribed persons were not found in the lists maintained by the Respondent. Regarding observation that AML/CFT policy of the Respondent did not have provision to maintain evidence with regards to such periodic screening, the Respondent did not furnish any satisfactory reply.</li></ul>



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	<ul style="list-style-type: none"><li>ii. In terms of regulation 11(2) of the AML Regulations, the justification to mark customers as "low risk" was required to be provided in writing. The Respondent informed that KYC/CDD of the customers was being carried based on 30 questions and the compliance officer was required to write down comments for assigning risk to the clients. The Respondent vide letter dated September 7, 2020 has provided KYC/CDD forms/checklists of 10 customers, classified as "low risk" wherein comments/justification for "low risk" category for each customer were available.</li><li>iii. In terms of regulation 9(4)(b)(c) of the AML Regulations, source of wealth and/or funds or beneficial ownerships of funds were required as part of the monitoring process. The inspection team sought salary slip of a highlighted customer, however, the same was not provided. The Respondent, however, submitted that EDD form of the account number 5178 was provided to the Inspection team, along with copy of salary slip of the client. In this regard, the Respondent furnished copy of salary slip for the month of August 2019 and visiting card of the customer as supporting evidence.</li><li>iv. With regard to early alert system for expiry of CNICs at least one month prior to their actual expiry date, the Respondent has submitted courier receipts wherein names of its some clients were written. The Respondent claimed that letters were written to clients to remind them regarding expiry of their respective CNICs. The said evidence is not sufficient without copy of relevant correspondence; however, Respondent could not provide the same. Furthermore, Respondent should develop an independent mechanism/system to monitor the expiry of its clients CNICs instead on relying on CDS data. Thus the contention of the Respondent is not tenable.</li><li>v. With regard the violation of regulation 6(4), the Respondent contended that due to low clientage NADRA Versify system was not installed at the brokerage house and accounts were opened on copies of CNICs and after thumb verification of NCCPL system. The said contention is not tenable as it was statutory obligation of the Respondent to verify the identity documents from NADRA Verisys system and the said requirement was not dependent upon number of clients.</li><li>vi. The Respondent contended that acknowledgement slips of income tax returns were provided in case of identified customers as evidence of compliance in terms of regulation 6(4), regulation 6(3)(c) and regulation 13(1) of the AML Regulations.</li><li>vii. The Respondent submitted acknowledgement slip of income tax return of an identified customer which was dated October 11, 2019 as</li></ul>
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	<p>evidence of compliance regulation 6(3)(c) and regulation 13(1) of the AML Regulations. However, the said contentions are untenable as acknowledgement slips of income tax returns do not satisfy the statutory obligation under regulation 6(4) and regulation 6(3)(c) of the AML Regulations.</p> <p>viii. The Respondent failed to comply the requirements of regulation 9(4) and regulation 10(1) and regulation 10(3) of the AML Regulations by not categorizing the risk rating of identified client, a government officer, in accordance with AML Regulations, however, subsequent to the inspection, the Respondent categorized the identified customer as "high risk"</p> <p>In view of the foregoing and after analyzing submissions made by the authorized representative of the Respondent, though substantial supporting documents have been furnished, however, violations in terms of regulation 6(4), regulation 6(5), regulation 6(3)(c), regulation 10(1) and (3), regulation 9(4) and regulation 15(3) of the AML Regulations are evident. Therefore, keeping in view the circumstances of the case, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 250,000/- (Rupees two hundred and fifty thousand only) is hereby imposed on the Respondent. The Respondent is advised to examine its AML/CFT procedures to ensure that the requirements contained in the AML Regulations are met in letter and spirit.</p> <p>Penalty order dated September 15, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A penalty of Rs. 250,000/- (Rupees two hundred and fifty thousand only) was imposed on the Company.
7. Current Status of Order	No appeal has been filed.

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