



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

Through Courier

File No. 1(61) SMD/ADJ/LHR/2018

October 29, 2018

Horizon Securities Limited,
Through its Chief Executive officer,
419-421, 4th Floor, Eden Tower,
Main Boulevard, Gulberg-III,
Lahore.

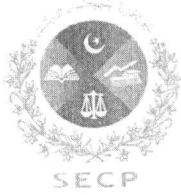
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(61) SMD/ADJ/LHR/2018

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
Horizon Securities Limited

<i>Date of Hearing</i>	<i>September 26, 2018</i>
<i>Present at the Hearing</i>	<i>Asif Mumtaz Mian, Head of Compliance</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office, Lahore</i>

ORDER

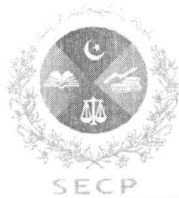
This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(61) SMD/ADJ/LHR/2018 dated September 03, 2018. The SCN was served on Horizon Securities Limited (“**Respondent**”) by the Securities and Exchange Commission of Pakistan (“**Commission**”) under section 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 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 policy put in place and furnished by the Respondent did not cover Currency Transaction Reports (CTR) filing as required under the KYC/CDD Guidelines of PSX read with the Anti Money Laundering Act, 2010 and Anti Money Laundering Regulations, 2015. Only the policy for suspicious transaction reporting had been included as identified by the Respondent.
- (ii) Based on information submitted by the Respondent, it appeared that investment profiling of customers had not been documented by the Respondent as required under the KYC/CDD Guidelines of PSX based on customer’s identity, nature of income, source of funding, location/domicile of customer, etc. Moreover, details about customers’ nature of investment as per regulatory requirements were not covered in the KYC and CDD form furnished by the Respondent.
- (iii) In the absence of information relating to customer’s identity, nature of income, source of funding, it appeared that the Respondent had not been able to appropriately maintain the risk categorization and perform due diligence of its customers as required under the KYC/CDD Guidelines of PSX. The following was accordingly observed:

Sr. #	Name	A/c #	Issues
1	Afraz Zafar	8	- Risk Categorization not done.





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2	Atique A. Malik	656	- Risk Categorization not done. - Authorized Person to operate the Account is not mentioned. - Documentary evidence such as employment certificate not attached - Amount of salary not mentioned
3	Manzoor Hussain Ejaz	668	- Name and address of Business is not given. - Risk Categorization not done. - Authorized Person to operate the Account is not mentioned.
4	Quratulain Kamila	1294	- Occupation of client is not mentioned. - Risk Categorization not done. - Authorized Person to operate the Account is not mentioned. - Details of Nominee is not given.
5	Chaudhry Farrukh	955	- Name and address of Business is not given. - Occupation details not mentioned in CDC Sub Account Form - Risk Categorization not done

- (iv) Due to the apparent failure to implement the risk categorization of its customers it *prima facie* appeared that Enhanced Due Diligence (EDD) was not performed by the Respondent as required under the KYC/CDD Guidelines of PSX. While examining the account opening forms of few customers of the Respondent, it was observed that although these customers had significant trading activity, as evident from their account ledgers, the Respondent did not perform any EDD for such customers. No evidence of employment or names of business or proof of business were attached with account opening forms of the following customers:

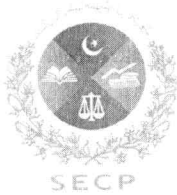
Sr. #	Name	A/c #
1.	ATIQUE A. MALIK	656
2.	MANZOOR HUSSAIN EJAZ	668
3.	CHAUDHRY FARRUKH	955

Further, it was observed while examining the account opening form of the Respondent's customer namely Quratulain Kamila (1294) that occupational details have not been mentioned, therefore, source of income for the said customer is unidentified even though the customer has significant trading activity.

- (v) As per Circular 10 of 2017 issued by the Commission, brokers are required to maintain record of customers having trading above the prescribed threshold. While reviewing the trading data provided by NCCPL for the month of July and August 2017, it was observed that certain customers of the Respondent had crossed the minimum threshold as defined under the said Circular. However, the Respondent failed to provide the record regarding the above-mentioned Circular. Further, in the month of July following customers had breached the limit of threshold as per details provided by NCCPL however, their particulars were not appearing in the details submitted by the Respondent:

Sr. No	Name
1	ATIQUE ABDULLAH MALIK
2	BILAL KHALID
3	QASIM IQBAL
4	AFRAZ ZAFAR





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(vi) In view of absence of customer identification, improper risk assessment and categorization of clients, absence of enhanced due diligence and absence of ongoing due diligence, it appeared that the Respondent did not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.

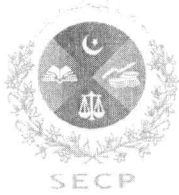
3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of regulation 16(1)(k) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations and the Know Your Customer & Customer Due Diligence Guidelines 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 18, 2018. The Respondent filed written reply to the SCN vide letter of September 22, 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) *Observation pertaining to the alleged failure to include Currency Transaction Reports in HSL's Policy is factually incorrect as the KYC/CDD/AML policy that HSL has put in place covered CTR filing as required under the KYC/CDD Guidelines of PSX read with the AML Act and AML Regulations. Clause 3.8 of the said Guidelines of PSX has been reproduced in HSL's AML Policy. Respondent agreed during the hearing that it shall review its policy again and include CTR as required under AML Act and Regulations.*
- (ii) *Regarding observation pertaining to lack of investment profiling HSL submits that this observation is factually incorrect as HSL collects and keeps a record of information that is relevant for investment profiling of customers as required under the KYC/CDD Guidelines of PSX. Reference is made to page 17 of HSL's account opening form titled KYC and CDD. This page requires clients to provide information regarding Client identity, nature of income, source of funding, location, occupation and other details. In relation to nature of investment, it is submitted that at the time of account opening the trading staff at HSL have a meeting with client to discuss in detail his investment plan/policy and also understand client's knowledge and experience about the stock market. Respondent stated during the hearing that it has now instructed a month ago that nature of investment be maintained by the staff for clients and attached with account opening forms.*
- (iii) *Regarding the absence of risk categorization, HSL submits that we diligently carry out risk assessment and due diligence of our clients and categorize them accordingly. HSL collects detailed information relating to customer's identity, nature of income and source of funding; all of the relevant categories are covered within our KYC and CDD and risk assessment forms. HSL collects all required information from clients in the risk assessment form titled KYC/CDD checklist. All information collected through aforementioned forms enables us to assess risk and categorize each client in their respective low, medium high risk category before opening an account. Risk categorization in respect of all five clients mentioned in SCN were in fact carried out and copies of risk assessment forms of each of the five clients were provided along*





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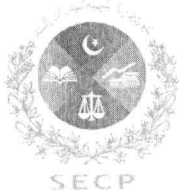
- with reply of letter of findings. Most of our clients have a longstanding relationship with us. In relation to missing details for five accounts, we have obtained that information and we will be updating the account information accordingly.
- (iv) HSL reiterates that it carries out proper risk assessment as per the requirements set out in Clause 4.1 of KYC/CDD Guidelines issued by PSX. Further it is pertinent to mention here that being an established practice we at HSL open accounts of only low risk clients with known references. In so far as the name of business and proof of business in respect of three accounts mentioned in SCN are concerned, this information is available with us and we will ensure that the account opening form are updated to reflect this information. Similarly, the account opening form for Mrs. Quratulain Kamila will also be updated to reflect the occupational details of the said client, which information is also available with us.
- (v) HSL has properly maintained the record as required under the SECP Circular 10 of 2017 and the said record was also provided to the officers of the SECP through our letter dated September 20, 2017. Further, in the month of July 2017, two clients namely Mr. Afraz Zafar and Mr. Bilal Khalid exceeded the five million threshold. Therefore, their names along with other particulars were submitted to the inspection team. As per HSL record, Mr. Qasim Iqbal and Mr. Atique A. Malik's net investment did not cross the five million threshold in the month of July 2017. Hence there was no requirement to include their names in the summary reports.
- (vi) Regarding lack of checks and controls, HSL has a comprehensive policy in pursuance of the AML Regulations, properly carries out customer identification through KYC/CDD form, properly carried out client risk assessment and categorization through risk assessment form and has adequate checks and controls to monitor and remain alert regarding suspicious transactions.

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) with reference to Currency Transactions Reporting (CTR), the requirement of clause 3.8 of the KYC/CDD Guidelines of PSX is insufficient. This clause *inter alia* puts in place a requirement whereby cash exceeding Rs.25,000 accepted by brokers in exceptional circumstances from customers is required to be reported to the exchange. However, CTR reporting is stipulated in the AML Regulations 2015 where reporting beyond the prescribed threshold is required to be made to the FMU. The Respondent accepted during the hearing that it shall review its policy again and include CTR as required under AML Act and Regulations;
- (ii) in relation to nature of investment of customers, the Respondent has admitted that it has instructed its staff a month ago that nature of investment be maintained by the staff for customers and attached with account opening forms. This reveals that the said requirement was not being fulfilled earlier;
- (iii) with reference to absence of information relating to customer's identity, nature of income, source of funding, the Respondent has admitted that it has obtained such information and it will be updating the account information accordingly. This illustrates that the Respondent did not have such information earlier without which it could not have been able to appropriately maintain the risk categorization and perform





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due diligence of its customers as required under the KYC/CDD Guidelines of PSX;
and

- (iv) Respondent stated that the account opening forms for Mrs. Quratulain Kamila, Atique A. Malik, Manzoor Hussain Ejaz and Chaudhry Farrukh will be updated to reflect the relevant information which illustrates that the account opening forms of the said customers were not updated. In the absence of complete account opening forms and missing information of such nature, it is not possible for the Respondent to accurately perform risk categorization of these customers. Without accurate risk categorization it could not have been possible for the Respondent to perform EDD 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 certain non-compliances and absence of information in its response and during the course of the hearing, 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.

Announced on October 29, 2018
Islamabad.



(Signature)
(Shaukat Hussain)
Commissioner