



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

Through Courier

File No. 1(133) SMD/ADJ/KHI/2018

October 29, 2018

IGI Finex Securities (Private) Limited,
Through its Chief Executive officer,
Suite # 701-713, 7th Floor, The Forum,
G-20, Khyabani-Jami, Block 9, Clifton,
Karachi.

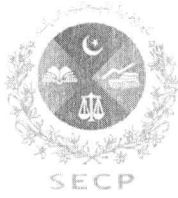
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(133) SMD/ADJ/KHI/2018

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
IGI Finex Securities Limited

<i>Date of Hearing</i>	<i>September 27, 2018</i>
<i>Present at the Hearing</i>	<i>Raza Hussain Rizvi, CEO</i> <i>Muhammad Shafiq, Compliance Officer</i> <i>Ali Ahmed Noor, FC + CS</i> <i>Faraz ullah Khan, Head of Operations</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office, Karachi</i>

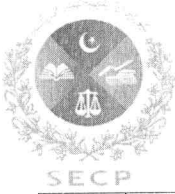
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(133) SMD/ADJ/KHI/2018 dated September 10, 2018. The SCN was served on IGI Finex 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 14, 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 27, 2018 (“**Report**”) *inter alia* revealed the following:

- (i) It was observed that the reporting for Currency Transaction (CTR) had not been specifically covered in KYC/CDD/AML policy of the Respondent, which is a requirement of the KYC/CDD Guidelines of PSX.
- (ii) It was observed that the Respondent did not obtain and document sufficient information on the purpose and intended nature of account to be opened/ maintained with them and failed to develop a profile of the customer based on results of customer identification and risk assessment as required under the KYC/CDD Guidelines of PSX.
- (iii) The Respondent furnished details regarding customer wise risk categorization and it was observed that the risk categorization was not maintained by the Respondent in accordance with KYC/CDD Guidelines of PSX as follows. Absence of proper risk categorization also indicated that the Respondent had not performed Enhanced Due Diligence (EDD) for its High Risk customer as required under the KYC/CDD Guidelines of PSX:





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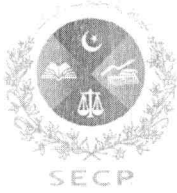
Code	Client Name	Status as per UIN/ Client List	Risk Categorization as assigned by IGI	Risk Categorization as suggested in KYC/CDD Guidelines
58018	TREET HR MANAGEMENT(PRIVATE) LIMITED	Local Corporate	Low	Medium
800	MOGUL TOBACCO COMPANY (PVT) LIMITED	Local Corporate	Low	Medium
75716	ATF MANGO FARMS (PRIVATE) LIMITED	Local Corporate	Low	Medium
1773	ASIF TARIQ SHAIKH	Local Individual/internet based client	Low	High
3005	HUMA AKBAR DURRANI	Local Individual/internet based client	Low	High
00359	MUHAMMAD TARIQ	Local Individual/internet based client	Low	High

(iv) There was lack of documentation of the following customers of the Respondent at the time of their account opening which illustrates that due diligence, and in case of High Risk customers EDD, may not have been performed as required under the KYC/CDD Guidelines of PSX:

Code	Client Name	Remarks
17210	Mehak Hanif	During review of the documents provided with the SAOF the team observed that no authorized person was nominated to operate her account other than herself, however it was declared that she is dependent on funds provided by her husband.
16276	Taha Ahmed	The team observed that his occupation mentioned doesn't not clearly state his income whereas in the ledger it was noted that during the period July-August 2017, Rs 1.7 million was received from the client.
15517	Athar Niaz	The team observed that his occupation mentioned doesn't not clearly state his income whereas in the ledger it was noted that during the period July-August 2017, Rs 35.19 million was received from the client.
17536	Shahid Lal	The team observed that his occupation mentioned doesn't not clearly state his income whereas in the ledger it was noted that during the period July-August 2017, Rs 10 million was received from the client. Further Respondent is required to submit copies of cheques received from the client during the period July-August 2017.
00525	Nuzhat Perveen	The team observed that documentary evidence regarding funds amounting to Rs.3.25 million received through inheritance by the client were not obtained.
09140	Muhammad Haider Agha	The team observed that no documentary evidence was obtained to determine the amount of annual/monthly income of the client, further financial statements of his sole proprietorship business "Gulf Ventures" was also not attached along with the SAOF.

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- (v) The profiles of following customers of the Respondent did not match with their trading activities during the month of July and August 2017 which illustrated an absence of ongoing due diligence as required under the KYC/CDD Guidelines of PSX:

Client Code	Client Name	Remarks	Occupation
09003	KHAIR MUHAMMAD	During the period July-Aug 2017 it was noted that funds amounting to Rs. 8.4 Million was received from the client. Further it has been observed that in the CDC Sub Account opening form, the client's occupation is appearing as a govt. teacher where as his the SAOF states him as additional secretary.	Service (govt. service)
15892	MONA BAKHSH	Trading pattern and receipt of funds do not reflect her status.	Housewife
05785	SUJEEL YUSUF	Trading pattern doesn't reflect his status.	Student

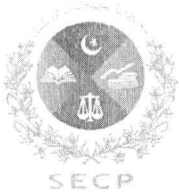
- (vi) The Respondent had not submitted any evidence of on-going training of employees with respect to AML and KYC/CDD. Hence, it appears that the Respondent had failed to provide on-going training to its employees, as required by the KYC/CDD Guidelines of PSX and regulation 4.17 of the PSX Regulations, that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily as required under the KYC/ CDD Guidelines of PSX and KYC/CDD/AML policies and procedures of the Respondent.
- (vii) In view of absence of customer identification, absence of risk assessment and categorization of clients, absence of enhanced due diligence, lack of ongoing due diligence, and lack of proper training, 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 10, 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 25, 2018. The Respondent filed written reply to the SCN vide letter of September 24, 2018. Hearing in the matter was rescheduled on request of the Respondent and held on September 27, 2018.

5. The submissions made by the Respondent in response of the SCN and verbally during the course of hearing are summarized and the relevant excerpt of the same as under:





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....., due to cumbersome requirements under the relevant enactment, regulations, guidelines forming subject matters of the SCN, there may have been some unintentional shortcomings in the records maintained by the Respondent, especially considering the fact the Respondent's concerned officers and employees are not members of legal fraternity.

Points in Para 4 of the SCN:

4(i) It is pertinent to mention here that Know Your Customer (KYC) & Customer Due Diligence (CDD) Guidelines issued by PSX does not cover Currency Transaction Reporting (CTR). Further, it does not mention that reporting for CTR should be covered in the KYC/CDD/AML/CFT policy.

4(ii) the clients are not sure about the strategy they will follow regarding holding period, investment in liquid or illiquid stocks, investment in specific sectors etc. When such queries have been raised with clients for the purpose of developing investment and risk profile, unclear views have emerged thereby hindering the process of such documentation for intended purposes.

..... . It is for the above stated reasons the Respondent has been finding difficulty to develop customer profile. At any rate, it is not correct that customer identification and risk assessments are not done.

4(iii) all the requirements applicable to medium risk clients were completed and Treet HR Management has now been assigned as medium risk category. Due to absence of active trading after November 30, 2017 and the client being part of highly reputable group, we request the Hon'ble Commission to take a lenient view on this matter.

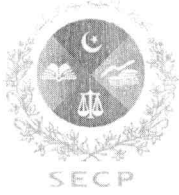
..... . The requirements as mentioned in the Guidelines for medium risk client are completed for this account, which has now been assigned as medium risk category. Therefore, the Hon'ble Commission is requested to take a lenient view on this matter.

..... Mogul Tobacco Company...The requirements as mentioned in the Guidelines for medium risk clients are completed for this account, which has now been categorized as medium risk category...the Hon'ble Commission is requested to take a lenient view on this matter.

..... ATF Mango Farms completed the requirements applicable to medium risk and ATF Mango Farms (Private) Limited has now been assigned as medium risk category. the Hon'ble Commission is requested to take a lenient in this matter.

[Asif Tariq Shaikh, Huma Akbar Durrani and Muhammad Tariq] , even though the clients are internet based and on-face to face criteria does not apply in this scenario, yet the clients visited our branch offices prior to opening of their accounts as mentioned. Hence, in our humble submission, there has been no violation.





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4(iv)

17210 – Mehak Hanif

....., the husband has provided letter of financial support in the name of Mehak Hanif., the Hon'ble Commission is requested to kindly take a lenient view in this matter.

16276 – Taha Ahmed

Taha Ahmed received an amount of Rs.1 million from his father whereas 0.7 million were invested by Mr. Taha from his savings.

15517 – Ather Niaz Rana

..... by occupation Mr. Ather is a Doctor. he earns Rs.2.4 million per month and it appears that client has sufficient financial strength

17536 – Shahid Lal

Shahid Lal is the Chief Executive Officer of Lal Din Engineering (PVT.) Limited tax returns indicates.... annual salary income of Rs.3.6 million..... These receipts clearly justify the receipt of funds amount to Rs.10 million between July and August 2017.

00525 – Nuzhat Parveen

..... She received Rs.10 Million from investments in securities The Respondent reviewed the account opening formand did not find inflow coming from inheritance.

09140 – Muhammad Haider Agha

The client is a sole proprietorship concern We honestly believe that the requirements of the Guidelines are complete.

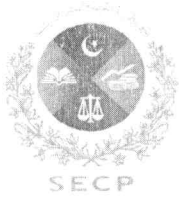
4(v)

9003 Khair Muhammad

The client is a government employee, His monthly salary exceeds Rs.300,000/- has also won various prize bonds he also earns agriculture income All the above sufficiently evidences that the client has the financial strength to operate his account.

15892 Mona Baksh





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The client Mona Buksh is financially supported by her husband he confirmed that his per month earnings of Rs.10 lacs.

5785 Sujeel Yusuf

This is a joint account of Sujeel Yousuf with his father, Muhammad Yusuf. Shajeel obtained employment in 2012 in United Arab Emirates where his monthly income was AED 8,500/-. The deposits made in the account are joint savings of Mr. Sujeel and Muhammad Yusuf.

4(vi)

Further, Know Your Customer (KYC) & Customer Due Diligence (CDD) Guidelines issued by PSX does not require that evidences of training have to be maintained at the end of the broker.

Further, evidence of recent training/awareness activity conducted pertaining to acceptance of cash above Rs.25,000/- Moreover informal training sessions are held from time to time The Law is silent as to the mode and period of training.

4(vi) Based on the position enunciated above, the Hon'ble Commission may kindly appreciate that the customer identification, process, initial risk assessment and categorization of clients are all in place Thus far, there has not been a single transaction that could be considered as suspicious.

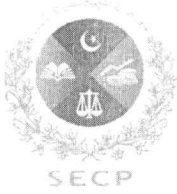
We at IGI.... always strive to work well within statutory and regulatory guidelines and limitations. However, sometimes matters are beyond our practical control.

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 to the SCN 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) It was observed that the reporting for CTR had not been specifically covered in KYC/CDD/AML policy of the Respondent. Clause 13 of the KYC/CDD Guidelines of PSX states that, *"It should be noted that brokers (like other financial institutions) are bound by the requirements of ANTI MONEY LAUNDERING ACT 2010, as applicable to them and must comply with the provisions of this Act... This also means that brokers have to provide information concerning their customers and their transactions to the Stock Exchange, Financial Monitoring Unit and the SECP"*. CTR is a fundamental requirement under the AML regulatory framework and unless it is explicitly mentioned in the Respondent's policy it cannot rationally expect its employees to comply with the same in dealing with customers and their trading activities. Regrettably, the Respondent has not produced any documentary evidence





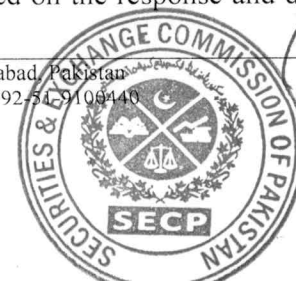
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- in the written reply to the SCN which may prove its contention that it is following the preceding regulatory requirement. The argument with respect to not accepting cash in excess of Rs.25,000/- is not tenable in the eyes of law. Unlike in the said written reply, the Respondent, in the hearing, has stated that it shall incorporate aspects related to CTR in its policy and requested the Commission to take a lenient view in this regard.
- (ii) It was observed that the Respondent did not obtain and document sufficient information on the purpose and intended nature of account to be opened/ maintained with them and failed to develop a profile of the customer based on results of customer identification and risk assessment as required under the KYC/CDD Guidelines of PSX. The Respondent has taken an elusive response in its written reply by shifting the onus on the clients. Such vague response is not admissible unless supported through credible and plausible response. However, in the hearing, the Respondent has admitted such non-compliance and requested for lenient view in this regard.
- (iii) The Respondent furnished details regarding corporate customer risk categorization and it was observed that the risk categorization was not maintained by the Respondent in accordance with KYC/CDD Guidelines of PSX. Admittedly, not only in written reply but in the hearing as well the Respondent accepted that it was not following such regulatory requirements, has rectified the non-compliance and requested the Commission to take a lenient view in this regard.
- (iv) Lack of documentation has been observed of the customers of the Respondent at the time of their account opening which illustrates that due diligence has not been performed as required under the KYC/CDD Guidelines of PSX. On this account, the case of Mr. Taha Ahmed is worthwhile to be mentioned here where the Respondent has confirmed that the salary slip of Mr. Ahmed was obtained from him in November 2017 after the inspection was conducted by the Commission. Further, contrary to observations in the SCN, the Respondent has failed to provide documentary evidence to determine the amount of annual/monthly income of Mr. Muhammad Haider Agha and financial statements of his sole proprietorship business. Such instances indicate lack of due diligence on part of the Respondent.

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 have either been rectified or are in the process of rectification, 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





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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.




(Shaukat Hussain)
Commissioner

Announced on October 29, 2018
Islamabad.