



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
Adjudication Department

No. 1(165)SMD/ADJ/KHI/2019

August 02, 2019

**Intermarket Securities Limited**

Through its Chief Executive Officer,  
Suite # 309, 3<sup>rd</sup> Floor,  
Business & Finance Center,  
I.I Chundrigar Raod,  
**Karachi.**

**SUBJECT: Order in Respect of Show Cause Notice dated June 17, 2019 Bearing Number No. 1(165) SMD/ADJ/KHI/2019**

Please find enclosed herewith a copy of order dated August 01, 2019 the title matter for your record and necessary action.

A handwritten signature in black ink, appearing to read 'Muhammad Faisal', is written over a horizontal line.

**Muhammad Faisal**  
(Management Executive)



Amended

**Securities and Exchange Commission of Pakistan**  
**Securities Market Division**

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to M/s. Intermarket Securities Limited

Date of Hearing	June 26, 2019
Present at the Hearing Representing Intermarket Securities Limited	i. Mr. Mian Noor Hameed (Chief Executive Officer) ii. Mr. Danish Haseeb (Head of Compliance) iii. Mr. Muhammad Younus (Head of Operations)

**ORDER**

This Order shall dispose of the proceedings initiated against the M/s. Intermarket Securities Limited (the "Respondent") through Show Cause Notice No. 1(165) SMD/ADJ/KHI/2019, dated June 17, 2019 (the "SCN") under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the "Act").

2. Brief facts of the case are that the Respondent is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited ("PSX") and licensed as a securities broker with the Securities and Exchange Commission of Pakistan (the "Commission"). The Commission, in exercise of the powers conferred under Section 137 of the Securities Act 2015, vide its order dated February 22, 2019 conducted follow-up review of compliance status in consonance with the regulatory requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML Regulations"). The team submitted its Report on May 06, 2019 ("Report") after receiving comments on the letter of findings dated April 15, 2019.

3. The Review Report revealed non-compliances with the AML Regulations; detailed as under:
- a. The Respondent had not incorporated the following requirements in its policy in violation of the Regulation 4(a) of the AML Regulations:
    - i. Regulation 2(t)(ii) related to Politically exposed persons ("PEPs")
    - ii. Regulation 7(2) related to Beneficial Ownership of Legal Persons and Legal Arrangements
    - iii. Regulation 15(3) related to Record Keeping
  - b. The Respondent had not maintained certain documents in case of its three clients including corporate client, as prescribed in KYC/CDD checklist in violation of sub-Regulations (2), (3) and (6) of the Regulation 6 of the AML Regulations.
  - c. The Respondents' system appeared to be inadequate to address monitoring of accounts/transactions on ongoing basis as certain information was not maintained in





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business and risk profile of the clients and further, it did not have automatic alert generation as mentioned in Annexure 3 of the AML Guidelines in violation of Regulation 13 of the AML Regulations.

- d. The Respondent had not provided evidence of enhanced due diligence (“EDD”) of its 3 high risk clients which is violation of Regulation 9 of the AML Regulations.
- e. The Respondent had inadequate internal audit function, which is violation of Regulation 4(d) of the AML Regulations.
- f. The Respondent provided job responsibilities of Compliance Officer, which did not include the minimum contents as envisaged in the AML Regulations, which is violation of the Regulation 18(c) of the AML Regulations.
- g. The Respondent had not provided documentary evidence of existence of the annual training program for its employees which is in violation of Regulation 20(b) of the AML Regulations.

4. In view of the aforesaid, the Respondent *prima facie* acted in contravention of the AML Regulations. The Commission therefore took cognizance of the aforesaid violations, issued SCN dated June 17, 2019 to the Respondent. The Respondent vide its letter dated June 27, 2019 submitted reply to the SCN, which is reproduced below:

a. “With regard to incorporation of requirements in the AML policy, the Respondent submitted that:

- For PEP, we have opted risk-averse policy to categorize such persons under high risk umbrella, so that thorough scrutiny can be performed at the initial stage and continuous monitoring to minimize the risk at very initial level which we believe is positive step. However in light of SECP findings we have amended M/s. Intermarket Securities Limited (IMS) policy to evaluate each person according to its dynamics to be classified as PEP.
- With regard to Reference to requirement under Regulation 7(2) to obtain ultimate ownership, ultimate control or ultimate effective control over the trust. This clause is well covered under point 7 (a) of IMSL policy which states as “For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies/organizations) additional care shall be taken to establish the ownership and control structure of such an organization and who (i.e. person(s)) actually owns the organization and who manages it. It shall be verified that the person who represents himself as authorized signatory with powers to open and operate the account is actually authorized by the organization.
- Reference to data retention policy we have written policy which states; “It shall be required to maintain the relevant documents obtained through the application of KYC/CDD/AML/CFT procedures, especially those pertaining to identification of the identity of a customer, account files and correspondence exchanged for a minimum period of five years”, however the words “after termination of the business relationship” have been missed due to typo error and have been incorporated.

Reference to unavailability of supporting documents, it is not correct that IMS has not maintained certain documents. Supporting documents of three clients as listed by Commission along with the Account Opening Form, it was erroneously missed while





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*photocopying the forms and annexures for submission to Commission, however all the listed documents are readily available and provided to Commission along with the IMS letter April 25, 2019.*

- c. *Reference to Regulation 13 of AML, IMS has a dedicated professional staff with the head of Risk, the responsibility of whom is to ensure every client is working in line with the health of his wealth which is supported through his concurrent KYC. In case there is any discrepancy the same is reported in IMS electronic system and reported to the adequate level for further consideration of the matter. In addition, IMS has the Procedures of Risk department to run a query each day end to evaluate not any particular segment of client but to evaluate 100% of population instead of taking a sample of client base. If there is any anomaly or any trade of irregular nature the same is investigated and if found something wrong the same is reported at the appropriate level within the company and if need arises the next reporting line is the regulator. IMS has been working on an IT based system which will help us do this all online and with more effective and efficient way. It will not only save our time and cost but on the same time it will help us comply with regulations on real time basis.*
- d. *Reference to Regulation 9 of AML Regulations, IMS's Risk staff ensures to update the KYC of relevant client and in case there is a need to do EDD the same is performed on urgent basis. Further, if there need arises it will be reported to the regulator as well. IMS has a proper educated and professional staff to do the task and fulfill the obligation lying on them not only from the company but also from the regulatory side.*  
*With reference to the discussion clients, we would like to apprise that we have already submitted relevant documents of these individuals.*
- e. *Reference to Regulation 4(d) of the AML Regulations, inadequate internal audit function as highlighted by Commission, in addition to existing structure, we are also in a phase of outsourcing professional qualified internal auditors for further strengthening organization's risk management, governance and internal control processes.*
- f. *With respect to Mandate of Compliance Officer and the highlighted missing clause, the subject clauses have been incorporated.*
- g. *IMS ensure to arrange/provide a training session/program to our relevant staff on continuing basis (multiple sessions during year). IMS being a responsible component of this State taking into consideration the need of time and responsibility arrange multiple training sessions during the year to educate and give staff the sense of Money Laundering, Terror Financing and IMS role in prevention, retention and control under the guidelines issued through SECP AML & CFT regulations. In this respect, documents of training, trainer name and the training slides have already been shared with Commission earlier."*

5. The Respondent was accorded hearing opportunity on June 26, 2019. The hearing was attended by Mr. Mian Noor Hameed (CEO), Mr. Danish Haseeb (Head of Compliance) and Mr. Muhammad Younus (Head of Operations) as Authorized Representatives. During the hearing proceedings, the Authorized Representatives reiterated the argument as submitted in response to the SCN.





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6. I have examined the submissions of the Respondent and its Representatives. In this regard, I observe the following:

- a. With regard to the deficiencies in AML policy of the Respondent pertaining to
  - Regulation 2(t)(ii); I observe that Clause 7(b) of AML Policy duly encompasses the requirements of said regulation. This shows that the AML Policy of the Respondent is in adherence with the provisions of Regulation 2(t)(ii) of the AML Regulations.
  - Regulation 7(2) i.e. to obtain ultimate ownership, ultimate control or ultimate effective control over the legal arrangement; I observe that Clause 7(a) of the Respondent's AML policy duly covers requirement of the said Regulation. Therefore no action is warranted in this regard.
  - Regulation 15(3) i.e. record keeping; the primary contention of the inspection team was that the Respondent policy did not cover the retention of record for five years after termination of business relationship. In this regard, the Respondent submitted that the words after termination of the business relationship" were missed due to typo error and same have been incorporated after the observation of inspection team. The reply of the Respondent shows that it has taken corrective measure and made necessary amendment in its AML Policy, thereby complied with the provisions of Regulation 15(3) of the AML Regulation.
- b. With regard to non-provision of documents of three clients, the Respondent submitted that all the supporting documents along with the account opening forms were available. In this regard, it is observed that the Respondent provided senior management approvals for its two high risk clients and proof of income of one client. In case of one client the Respondent has not provided the evidence of income. The Respondent however submitted that in case of said client UIN was created but the account was neither activated nor was any trade executed in this account due to non-availability of requisite documents. In case of corporate client, the Respondent provided the Memorandum and Article of Association, Certificate of incorporation and other related documents. In view of the aforesaid submission of the Respondent, no action is warranted.
- c. With regard to the ongoing monitoring of its clients and automatic alert generation system, the Respondent in response submitted the procedure of risk management department. The Respondent however has not provided evidence of any ongoing monitoring of its clients and alert generation. This reveals that the Respondent is non-compliant with the provisions of Regulation 13 of the AML Regulations.
- d. With regard to the EDD of its three clients,
  - In case of one client, the Respondent along with its reply submitted the copy of senior management approval and copy of its pay slip, which was the primary contention of the inspection team. This shows that the Respondent performed the due diligence in the instant case.
  - In case of second client, the Respondent only provided the business profile of the said client and no other document was/is provided to substantiate that the Respondent





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conducted the EDD of the said client. This shows that the Respondent failed to perform the EDD in the said case.

- In case of third client, the Respondent only provided the senior management approval. The Respondent however did not obtain the source of funds/level of income and other documents to substantiate that EDD was performed.

Further, the Respondent during the hearing proceedings admitted the aforesaid violations that in case of two clients it failed to perform the EDD. The Respondent is therefore found non-compliant with the provisions of Regulation 9 of the AML Regulations.

- e. With regard to the internal audit function, the Respondent during the hearing proceedings submitted that it did not have a separate internal audit function. A junior level officer was assigned to perform internal audit. Now it is in process to outsource the internal audit function to some professional internal auditor. The same stance is reiterated in the written reply of the Respondent. This shows that the Respondent does not have adequate internal audit function to test its AML/CFT system, thereby found non-compliant with the provisions of Regulation 4(d) of the AML Regulations.
- f. With regard to the job responsibilities of the compliance officer as per AML Regulations, the Respondent informed that it has updated the Job description of its Compliance Officer in accordance with regulations therefore, it would be unjust to hold the Respondent accountable on this count.
- g. With regard to the training of the employees on AML/CFT, the Respondent arranged the awareness and training session on November 23, November 30, 2018 & December 07, 2018 respectively. The Respondent is however advised to conduct comprehensive training of its employees and develop an annual training program for its employees in compliance with the requirements of Regulation 20(b) of the AML Regulations.

7. In the view of the foregoing and the admission by the Respondent, contravention of the provisions of AML Regulations have been established. Therefore, in term of the power conferred under Section 40A of the Act, a penalty of **Rs 250,000/- (Rupees two hundred fifty thousand only)** is hereby imposed on the Respondent. The Respondent is advised to enforce the provisions of AML Regulations in letter and spirit. The Respondent is directed to deposit the aforesaid penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days of date this Order and furnish the original deposit challan to this Office.

8. Furthermore, the Respondent is advised to:
- i. Implement on-going monitoring mechanism for its clients,
  - ii. and develop alert generation system that capture ML/TF warning signs/red flags.

A compliance report in this regard shall be submitted within 30 days of this order.





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9. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on the matter subsequently investigated or otherwise brought to the knowledge of the Commission.

Announced on August 01, 2019  
Islamabad



(Shauzab Ali)  
Commissioner (SMD)

