



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Adjudication Department

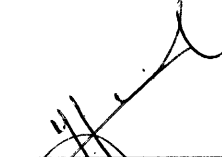
No. 1(168)SMD/ADJ/KHI/2019

July 18, 2019

Ismail Iqbal Securities (Pvt.) Limited
Through its Chief Executive Officer,
C-132-B, KDA Scheme No. 1,
Main Miran Muhammad Shah Road,
Karachi.

SUBJECT: Order in Respect of Show Cause Notice dated June 17, 2019 Bearing Number No. 1(168) SMD/ADJ/KHI/2019

Please find enclosed herewith a copy of order dated July 17, 2019 the title matter for your record and necessary action.



Muhammad Faisal
Management Executive



Securities and Exchange Commission of Pakistan
Securities Market Division

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to Ismail Iqbal Securities (Pvt.) Limited

Date of Hearing	July 05, 2019
Present at the Hearing	i. Mr. Zahid Farooq
Representing Ismail Iqbal Securities (Pvt.) Limited	(Compliance Officer)

ORDER

This Order shall dispose of the proceedings initiated against the Ismail Iqbal Securities (Pvt.) Limited (the "**Respondent**") through Show Cause Notice No. 1(168) 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 169 of the Securities Act 2015, vide its order dated March 12, 2019, conducted 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 April 04, 2019 ("**Report**") after receiving comments on the letter of findings dated March 25, 2019.

3. The Review Report revealed non-compliances with the AML Regulations; detailed as under:

- a. AML Policy of the Respondent does not include the following requirements of the AML Regulations:
- Regulation 13 (Ongoing Monitoring)
 - Regulation 7 (Beneficial Ownership of Legal Persons and Legal Arrangements)
- Further, the Respondent has not included the requirements of the following Regulations:
- Regulation 3 (Risk Assessment)
 - Regulation 4 (Risk mitigation and Applying Risk Based Approach)





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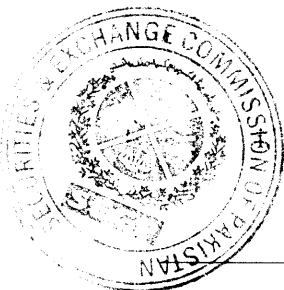
- Regulation 5 (New Products, Practices and Technologies)
- Regulation 6 (Customer Due Diligence)
- Regulation 9 (Enhanced Due Diligence)
- Regulation 11 (Simplified Due Diligence)
- Regulation 14 (Reporting of Transaction (STRs/CTRs)).

The aforesaid is the violation of Regulation 4(a) of the AML Regulations.

- b. The Respondent has not developed an independent audit function, which is in violation of Regulation 4(d) of the AML Regulations.
- c. The Respondent has not obtained the source of income, business and its ownership and control of its nineteen clients. Further, the Respondent has not obtained the evidence of beneficial ownership of its ten clients, which is in violation of Regulation 6(3) of the AML Regulations.
- d. The Respondent has not categorized four of its clients as high or low risk depending upon the CDD process, which is in violation of Regulation 6(8) of the AML Regulations.
- e. The Respondent has not identified and verified the identity of all the natural persons who owns or control one of its corporate client, which is in violation of Regulation 7 of the AML Regulations.
- f. The Respondent has not justified in writing the decision to rate its three clients as low risk on the basis of their CDD, which is in violation of Regulation 11(2) of the AML Regulations.
- g. The Respondent has not developed the mechanism and procedures for ongoing monitoring of its clients, which is in violation of Regulation 13 of the AML Regulations.
- h. The Respondent has not developed a mechanism for retaining the clients' records as laid down under the AML Regulations and following observations were made:
 - Lack of documentation obtained during the CDD process, copies of vouchers/banking instruments, proof of income etc.
 - The Respondent failed to provide the vouchers along with supporting documents for verification of 23 receipts and 28 payment transactions.
 - No mechanism for retrieving record on timely basis for onward submission to the regulators.

The aforesaid is the violation of Regulation 15 of the AML Regulations.

The Respondent has not prescribed the minimum job description of the compliance officer, which is in violation of Regulation 18 of the AML Regulations.





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- j. The Respondent failed to provide AML training to 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 July 01, 2019 submitted reply to the SCN, which is reproduced below:

- a. Please find enclosed copy of AML policy approved by board of directors which is in accordance to the AML& CFT regulation 2018.
- b. Internal check is an ongoing process making sure of all AML/CFT requirements are being fulfilled i.e. during account opening it is made sure that all documentary requirements are met plus the client is physically present. Further, now with the implementation of CKO, these controls are now more stringent.
- c. Details of clients' source of income and beneficial ownership are enclosed.
- d. Four identified clients had been categorized under "High Risk" as per the recommendation report of JIT.
- e. Unclear
- f. Initially three of the clients were rated "Low Risk" which were supposed to be categorized under "High risk" after evaluation but now those had been marked "High Risk" as per the recommendation of JIT.
- g. We had liaison with our software developer and now we had incorporated mechanism in our system for ongoing monitoring of our clients.
- h. Will provide missing instruments in due course.
- i. Please find attached updated job description for compliance officer.
- j. For the awareness of all the employees, board approved AML/CFT policy were provided, further compliance officer and other relevant department integrated in order to implement these policies. In addition, SECP and PSX sessions on AML/CFT proved very helpful.



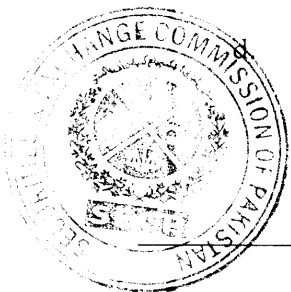


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5. The Respondent was accorded hearing opportunity on June 26, 2019 which was adjourned and later on held on July 05, 2019. The hearing was attended by Mr. Zahid Farooq (Compliance Officer) as Authorized Representative. During the hearing proceedings, the Authorized Representative reiterated the argument as submitted in response to the SCN.
6. I have examined the submissions of the Respondent. In this regard, I observe that:
- a. With regard to deficiencies highlighted in the AML policy, the Respondent during the hearing proceedings submitted its AML Policy as evidence of compliance with Regulation 4(a) of the AML Regulations. Review of the policy reveals that it adequately covers the deficiencies highlighted by the inspection team and is found compliant with Regulation 4(a) of the AML Regulations therefore, no action is warranted.
 - b. With regard to the internal audit function, the Respondent's response is not satisfactory. During the hearing proceeding, the Respondent admitted that independent audit function was not in place at the time of inspection. The Respondent subsequently appointed internal auditor however, no evidence in this regard is provided. In view of the aforesaid, the Respondent is found non-compliant with the provisions of Regulation 4(d) of the AML Regulations.
 - c. With regard to the CDD of 19 clients, the Respondent during the hearing admitted that the requisite information was not available with it at the time of inspection. The Respondent in reply to the SCN provided the tax returns of 14 clients as evidence of CDD. However, it is observed that in 5 instances, the Respondent still failed to provide documentary evidence of CDD. Further, with regard to the beneficial ownership of 10 clients, the Respondent admitted that it did not maintain the requisite information till the time of inspection. The Respondent in reply to the SCN submitted beneficial ownership details of 8 clients. However, in case of 2 clients no information is provided. In view of the foresaid, the Respondent is non-compliant with the provisions of Regulation 6(3) of the AML Regulations.

With regard the categorization of 4 of its clients on the basis of outcome of CDD process, the Respondent admitted that the said clients were not categorized at the time of inspection. The Respondent in reply to the SCN provided that these clients have been categorized as high risk based on the recommendation of the



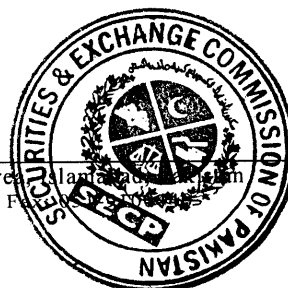


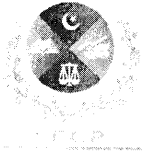
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inspection team. This shows that Respondent failed to assign risk rating to these clients and therefore, found non-complaint with the provisions of Regulation 6(8) of the AML Regulations.

- e. With regard to the identity of all the natural persons who owns or controls one of its corporate clients, the Respondent during the hearing proceedings admitted that the requisite information was not available at the time of inspection. The Respondent is therefore, found non-compliant with Regulation 07 of the AML Regulations.
- f. With regard to the written justification to assign low risk rating to 3 clients, the Respondent in reply to the SCN submitted that these clients were supposed to be categorized as high risk. In this regard, the Respondent admitted that these clients were assigned low risk rating without any justification. This shows that the Respondent failed to comply with the provisions of Regulation 11(2) of AML Regulations.
- g. With regard to the ongoing monitoring of its clients, the Respondent during the hearing and its reply to the SCN admitted that that there was no such mechanism in place. The Respondent submitted that it has now incorporated on-going monitoring mechanism of its clients. Therefore, the Respondent was found non-compliant with the provisions of Regulation 13 of the AML Regulations.
- h. With regard to the development of mechanism for retaining clients' record, the Respondent failed to provide the requisite documents including vouchers, banking instruments, payment transactions etc. to the inspection team. During the hearing proceedings the Respondent was inquired about the provision of the said documents. The Respondent however again failed to provide the same. This shows that the Respondent was non-complaint with the provisions of Regulation 15 of the AML Regulations.
- i. With regard to the job description of the compliance officer, the Respondent admitted that the job description was updated subsequent to the observation of the inspection team. However, it failed to provide evidence of the same. Therefore, the Respondent is found non-compliant with Regulation 18 of the AML Regulations.





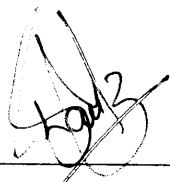
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- j. With regard to the AML training of its employees, the Respondent during the hearing proceeding admitted that no formal training was conducted however, in house session had been arranged for the employees for awareness of the AML Regulations for effective implementation. The Respondent is advised to develop annual training program for its employees to address the gap of non-compliance.

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. 500,000/- (Rupees five hundred 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. 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.




(Shauzab Ali)
Commissioner (SMD)

Announced on July 4, 2019
Islamabad