

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

In the matter of Show Cause Notice issued to Khawaja Securities Private Limited

Date of Hearing	December 02, 2020
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Order-Redacted Version

Order dated December 03, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Khawaja Securities Private Limited. Relevant details are given as hereunder:

Nature	Details
• Date of Action	Show Cause notice dated September 23, 2020.
• Name of Company	Khawaja Securities Private Limited.
• Name of Individual	The proceedings were initiated against the Company i.e. Khawaja Securities Private Limited and its Compliance officer.
• Nature of Offence	Proceedings under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997.
• Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have carefully examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondents. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <p>i. With regard to Regulation 4(a) and 13(7) of the AML Regulation, the Authorized representative during the hearing submitted that the Respondent has fully functional automated system for the last 2.5 years for screening of its client and beneficial owner and maintaining requisite database/information. However, the said stance is not tenable on grounds that it was contradictory to the earlier written response of the Respondent to the inspection team on the letter of findings wherein it was argued that the brokerage house is the small business with the very few clients and cannot afford any screening software hence relying on manual operations. Further, pre-inspection evidence could not be furnished at the time of hearing to substantiate that the existence of procedures relating to identification of beneficial owners of its individual clients, corporate clients. Thus, requisite screening was not conducted by the Respondent from the list of proscribed person under Anti-Terrorism Act, 1997 and from list of person designated by United Nation Security Council Resolutions adopted by Government of Pakistan, at the time of establishment of relationship and continuing relationship with the customers. Moreover, the Authorized Representatives admitted during the hearing that AML/CFT policy of the Respondent was deficient at the time of inspection and same was also communicated to inspection team in response to their letter of findings. Authorized Representative informed that subsequent to the Inspection,</p>

	<p>Respondent has rectified the default.</p> <p>ii. The defaults of Regulation 18(c) (iii) were consequential to the default of Regulation 4(a) of the AML Regulations. Therefore, Respondent and its Compliance Officer have contravened Regulation 18 (c) (iii) of the AML Regulations.</p> <p>iii. During the hearing as well as in the Letter of findings, it was admitted that the Respondent did not have an independent audit function as required in the said Regulations and Chief Executive Officer of the Respondent is looking after the Internal Audit function. Therefore, contravention of Regulation 4(d) of AML Regulations cannot be denied.</p> <p>iv. In context of the alleged violations of Regulations 6(4) & 7(1) (b), the Respondent in response to Letter of Findings informed the Inspection team that the Respondent had approached NADRA for provision of NADRA Verisys facility but got no response from NADRA. The Authorized Representative reiterated the same during the hearing. It clearly depicts that before and at the time of Inspection the Respondent was not complying with the requirements of the aforesaid Regulations of the AML Regulations.</p> <p>v. With regard to the violations of Regulations 6(3)(c), 13(1) and 13(3) of the AML Regulations, in four instances, during the hearing, the authorized Representatives admitted the said contraventions of AML regulatory framework as it had not updated record for on-going monitoring by not obtaining information like source of income, which was prerequisite to determine that the requirements of the Regulation 6(3)(c), Regulation 13(1) and Regulation 13(3) of the AML Regulations are being met.</p> <p>In view of the foregoing and admission made by the Representatives, contraventions of the provisions of Regulations 4(a), 13(7), 18(c)(iii), 4(d), 6(4), 7(1) (b), 6(3)(c), 13(1) and 13(3) of AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 100,000/- (Rupees One Hundred Thousand Only) is hereby imposed on the Khawaja Securities (Pvt.) Limited. However, in reference to Regulation 18 (c) (iii) Compliance office is warned to be careful in future. The Khawaja Securities (Pvt.) Limited is advised to examine its AML/CFT policy & procedures to ensure that the requirements contained in the AML Regulations are met in letter and spirit.</p> <p>Penalty Order dated December 03, 2020 was passed by Executive Director (Adjudication-I).</p>
<ul style="list-style-type: none"> Penalty Imposed 	Penalty of 100,000/- (<u>Rupees One Hundred Thousand only</u>) was imposed.
<ul style="list-style-type: none"> Current Status of Order 	No appeal has been filed against this Order.

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