

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

In the matter of Show Cause Notice issued to Kosmopolitan Securities (Private) Limited

Date of Hearing	September 24, 2020
-----------------	--------------------

Order-Redacted Version

Order dated October 09, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Kosmopolitan Securities (Private) Limited. Relevant details are given as hereunder:

Nature	Details
• Date of Action	Show Cause notice dated July 29, 2020.
• Name of Company	Kosmopolitan Securities (Private) Limited.
• Name of Individual	The proceedings were initiated against the Company i.e. Kosmopolitan Securities Private Limited.
• 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 style="margin-left: 40px;">i. For periodic screening of its customers, as stated there are only (05) customers of the Company, and the Company has furnished copies of SROs issued and relevant screen shots of e-services online portals. However, on various screenshots submitted, relevant dates of screening was not mentioned. The Company through its aforesaid replies, furnished copies of KYC/CDD checklist forms of its (05) customers, which were dated August 25, 2020. Moreover, relevant supporting evidences of salary slips and tax returns/forms of these customers were taken during the months of March to September, 2020. The customer risk categorization was not clear and any justification for "low risk" customer was not provided in the KYC/CDD checklist forms of the said (05) customers. The Company informed the inspection team that back office system was not available for provision of relevant information. The inspection team as per question number 03 of questionnaire dated June 2, 2020 noted that the Company did not perform the screening of beneficiary of the account holders. The stance taken by the Company, that the customers are the beneficial owners, however, any substantial evidence in support of the claim of the Company, has not been made</p>

available. In view of the above, I am of the view that the Company, at the time of relevant inspection, did not furnish to the inspection team, supporting evidences of its screening, periodic screening and risk categorization of its clients, and details of beneficial owners with supporting evidences. The Company stance that for only having (05) customers, the accounts of which were opened before promulgation of AML Regulations, relevant CDD was not required at that time. The stance is, however, not justified as monitoring of its customers is required during the period of business relationship of such customers. The Company is therefore required to implement effective monitoring mechanism to maintain relevant record for mitigating its ML/TF risks. Keeping in view, the Company has violated Regulation 6(8) and Regulation 15(3) of the AML Regulations, for not having risk categorization of customers and for not providing supporting evidence to the inspection team for maintenance of relevant record, whereas for ensuring compliance of Regulation 3(1), Regulation 4(a) and Regulation 13(7) of the AML Regulations, for the purpose of screening, periodic screening and for having beneficial ownership details of existing customers, the Company needs to take measures in view of the size of the business of the Company to mitigate ML/TF risks.

ii. The Company through its reply dated September 28, 2020, furnished a copy of extract of resolution of directors passed in the meeting held on September 9, 2020 to approve Policy updated as per AML Regulations. I am therefore of the view that at the time of inspection, the Company could not furnish its updated AML Policy as per requirements of AML Regulations, and policy subsequently updated through board approval dated September 9, 2020 is subject to review of the concerned department. Hence, requirements of Regulation 4(a) and Regulation 18(c) (iii) of the AML Regulations have been violated.

iii. With regards to the violation of regulation 6(4), the Company's contention that (05) accounts were opened before promulgation of AML Regulations and the Company responded that compliance would be ensured in future. The aforesaid stance of the Company is, however, not acceptable, as it was the statutory obligation of the Company to verify the identity documents from NADRA Verisys system and the said requirement was not dependent upon number of clients. Moreover, evidence of compliance of NADRA Verisys dated June 9, 2020 of (05) customers as submitted to the inspection

team, were produced subsequent to the initiation of inspection, and such documents were not available during the inspection period, hence, the Company has violated relevant requirements of note (i) of annexure-I of Regulation 6(4) of the AML Regulations.

- iv. With regards to the violation of regulation 6(4), the Company's contention that (05) accounts were opened before promulgation of AML Regulations and the Company responded that compliance would be ensured in future. The aforesaid stance of the Company is, however, not acceptable, as it was statutory obligation of the Company to verify the identity documents from NADRA Verisys system and the said requirement was not dependent upon number of clients. Moreover, evidence of compliance of NADRA Verisys dated June 9, 2020 of (05) customers as submitted to the inspection team, were produced subsequent to the initiation of inspection, and such documents were not available during the inspection period, hence, the Company has violated relevant requirements of note (i) of annexure-I of Regulation 6(4) of the AML Regulations. As per reply of the Company, the process of ensuring compliance of Customer's Due Diligence (CDD) was initiated, and relevant CDD forms and supporting evidences of sources of income of (05) existing customers were furnished. As per relevant details (03) customers were salaried persons and (02) customers were self-employed. However, the CDD forms were dated August 25, 2020 and supporting documents of copies of tax certificates or salary slips were mainly obtained subsequent to initiation of inspection. The aforesaid clearly reflects ongoing monitoring of its business relationships was not ensured. Hence, at the time of inspection by not producing relevant supporting documents of CDD, sources of income of its (05) Customers, the Company had violated the requirements of Regulation 6(3) (c), Regulation 13(1), Regulation 6(8) and annexure-I of the AML Regulations.

In view of the foregoing facts, I am of the view that the Company has violated the requirements of the AML Regulations as narrated in above paras. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of **Rupees One Hundred Thousand only (Rs. 100,000/)** is, hereby, imposed on the Company. The Company is hereby also directed :

- To implement measures to manage ML/TF risks, which include but not limited to having a compliance officer, ongoing monitoring of customers, identity verification of its customers and beneficial owners, effective periodic screening, monitoring of corporate clients,

	<p>maintenance of database of customers in compliance of AML Regulations.</p> <p>Penalty Order dated October 09, 2020 was passed by Executive Director (Adjudication-I).</p>
<ul style="list-style-type: none"> • Penalty Imposed 	<p>Penalty of 100,000/- (<u>Rupees One Hundred Thousand only</u>) was imposed.</p>
<ul style="list-style-type: none"> • Current Status of Order 	<p>Appeal was filed against the Order.</p>

Redacted version issued for placement on the website of the Commission.