

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

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

Date of Hearing	December 29, 2020
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Order-Redacted Version

Order dated December 29, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of MGM Securities Private Limited. Relevant details are given as hereunder:

Nature	Details
• Date of Action	Show Cause notice dated November 17, 2020.
• Name of Company	MGM Securities Private Limited.
• Name of Individual	The proceedings were initiated against the Company i.e. MGM 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 the observation regarding NADRA Verisys of its clients, the Respondent during the hearing provided that they have a total clientele of approx. 900. Further, the Respondent also iterated that they have performed biometric verification of all of its active accounts which constitute around 200 customers. Further, the Respondent in its response also provided that the NCCPL has also initiated biometric verification for its clients since June, 2019 and therefore, the same is also covered under NCCPL Regulations. The Respondent also submitted letter of Pakistan Stockbroker Association to NADRA for obtaining the facility of NADRA Verisys. In this regard, the Respondent had also initiated personal efforts to obtain the NADRA Verisys system but efforts for the same were initiated long after the promulgation of AML Regulations in June, 2018. In absence of evidence for NADRA Verisys of its clients, the Respondent was found to be non-compliant with Annexure I (Note i) of AML Regulations read with Regulation 6(4) of the AML Regulations.</p> <p>ii. With regard to instance regarding deficient source of income/</p>

beneficial ownership, the Respondent in its reply submitted that the account holder is a student who teaches tuition and operates the trading account with self-income. In this regard, the Respondent had obtained affidavit from the student regarding his source of income and also submitted that it is self-beneficial ownership. However, the affidavit was obtained in February, 2020 i.e. after a significant delay since the inception of AML Regulations in June, 2018. It was observed that during the inspection such evidence of income/ BO could not be provided. Therefore, the Respondent was found to be non-compliant with Regulation 6(3) (a), 6(3) (c) and 13(1) of the AML Regulations.

iii. With regard to justification of its Low-risk clients, the Respondent during the hearing contended that they have developed a checklist which assess all risk factors before determining the risk category of any client and all such information is presented in its KYC/CDD form. However, the inspection team is of the view that such justification should be provided in the shape of comments which depicts the basis of categorization as low risk. Review of the KYC/CDD forms reveal that no such description or comments were mentioned on the form to determine the level of risk imposed by the client. Due to such missing information, the Respondent was found non-compliant with Regulation 11(2) of the AML Regulations. The Respondent had admitted that this element will be incorporated in their KYC/CDD forms subsequently to comply with the requirements of AML Regulations.

iv. With regard to absence of on-going screening mechanism for its clients/ nominees/ joint account holders, authorized persons and Board of Directors, and absence of database of beneficial owners for direct and indirect screening, the Respondent during the hearing submitted that they have now updated their database with respect to details of beneficial ownership and onwards screening for all clients and associated individuals/ entities are being carried out on a regular basis. However, during the inspection, the Respondent could not demonstrate an on-going screening mechanism installed for its clients and failed to provide details of beneficial ownership of all its clients due to which such instances of violations were highlighted by the team. The Respondent's policy was also found to be deficient with respect to the screening of its clients, associated individuals/ entities and beneficial owners, which was later amended in February, 2020 subsequent to the review. The Respondent was therefore, found to be non-compliant with Regulation 4(a) read with 13(7) of the AML Regulations.

	<p>v. With regard to the deficiencies in its AML/CFT policy with respect to NRA updated, 2019, the Respondent had submitted that they have updated their policy and procedures and all relevant clauses have been included in the policy/ procedures. In this regard, the Respondent submitted copy of board resolution dated February 26, 2020 regarding approval of revised policy and procedures on AML/CFT subsequent to the review. The Respondent was therefore, in contravention of Regulation 4(a) of the AML Regulations during the review and have subsequently rectified the default.</p> <p>vi. With regard to the non-compliance of the Compliance officer in respect of his responsibility to ensure meticulous compliance of the AML Regulations, it was observed that the Compliance officer had failed to identify the non-compliances as highlighted during the review. Further, the compliance reports submitted by the Respondent did not comprehensively cover all the elements of the AML Regulations. The Compliance officer of the Respondent was found to be non-compliant with Regulation 18(c) of the AML Regulations. The Respondent in its reply provided that they have enhanced their compliance function and are now compiling comprehensive reports on the AML/CFT compliance.</p> <p>9. In view of the foregoing facts, I am of the considered view that flagrant and multiple violations of the provisions of the AML Regulations have been established. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 260,000/- (Rupees Two Hundred Sixty Thousand only) is hereby imposed on the Respondent Company. The Respondent 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. Further, the Compliance Officer of the Respondent is strictly warned and advised to monitor, review and update its AML Policy and procedures as and when required and also update its database as per the requirements of the AML Regulations.</p> <p>Penalty Order dated December 29, 2020 was passed by Executive Director (Adjudication-I).</p>
<ul style="list-style-type: none"> Penalty Imposed 	Penalty of 260,000/- (Rupees Two Hundred Sixty Thousand only) was imposed.
<ul style="list-style-type: none"> Current Status of Order 	Appeal has been filed against the Order.

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