



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
Securities Market Division
Adjudication Department

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

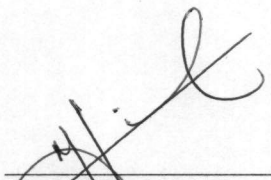
August 02, 2019

Pearl Securities Limited

Through its Chief Executive Officer,
Suite # 204, 2nd 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-B) 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.



Muhammad Faisal
(Management Executive)



Amirul

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. Pearl Securities Limited

Date of Hearing	July 04, 2019
Present at the Hearing	i. Mr. Ahsan Hashmi (Chief Financial Officer)
Representing Pearl Securities Limited	ii. Mr. Muhammad Wasim (Head of Operations)

ORDER

This Order shall dispose of the proceedings initiated against the M/s. Pearl 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**"). Follow up review of the Respondent was conducted by Commission in terms of Section 137 of Securities Act, 2015 (the "**Act**") to ascertain compliance with requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("**AML Regulations**"). The Report was submitted on May 07, 2019 (the "**Review Report**") after receiving comments of the Respondent on the letter of finding dated April 15, 2019.

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

- a. AML Policy of the Respondent did not include the following requirements of the AML Regulations in violation of Regulation 4(a) of the AML Regulations:
- Regulation 3 (Risk Assessment)
 - Regulation 5 (New Products, Practices and Technologies)
 - Regulation 7 (Beneficial Ownership of Legal Persons and Legal Arrangements)





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- Regulation 11 (Simplified Due Diligence)
 - Regulation 12 (Reliance on Third Parties)
 - Regulation 17 (Correspondent Relationship)
- b. Lack of CDD measures in respect of eleven clients, which is violation of Regulation 6(3) of AML Regulations.
- c. The Respondent had not documented the beneficial owner of account holder which is in violation of Regulation 6(5) of the AML Regulations.
- d. The Respondent had not maintained sufficient information for ongoing monitoring of its clients. Further, the Respondent had not developed any system with regard to the Automatic Alert Generation system as required under the Annexure 3 of the AML Guidelines for effective control and implementation of ongoing monitoring which is violation of Regulation 13 of the AML Regulations.
- e. The Respondent failed to seek senior management approval to establish the business relationship with six high risk clients, which is violation of Regulation 9(4) (a) of the AML Regulations. Further Respondent failed to perform the Enhanced Due Diligence for eight clients to identify the source of funds/wealth in violation of Regulation 9(4) (b) of the AML Regulations
- f. The Respondent failed to identify the one client as Politically Exposed Person ("PEP"), which is violation of Regulation 10(1) 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 letters dated July 02, 2019 and July 08, 2019 submitted reply to the SCN along with the supporting documents:

a) *"The Anti Money Laundering (AML) and Know Your Customer (KYC) Policy of the company was approved from the Board of Directors on October 06, 2018. Your apex office pointed out that our policy did not include the following features:*

- *Regulation 3 (Risk Assessment)*
- *Regulation 5 (New Products, Practices and Technologies)*
- *Regulation 7 (Beneficial Ownership of Legal persons & Legal Arrangements)*
- *Regulation 11 (Simplified Due Diligence)*
- *Regulation 12 (Reliance on Third Parties)*
- *Regulation 17 (Correspondent Relationship)*

As advised, we have updated our AML Policy and the same is under the process of approval from our Board of Directors. We appreciate that your office went-through our correspondence very thoroughly and simultaneously assure you that all above listed practices are already being implemented by the Company. This statement is also evident from the observations of your team i.e. no observation was made in any of the above area.





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- b) *The observations of your office highlighted about eleven clients but we elaborate in our reply the details about each and every client's due diligence. We particularly mentioned in our reply that these eleven clients specifically all clients generally are clearly identifiable in respect of beneficial ownership and this all is done on the basis of documents, data and information obtained from all available sources. We continuously obtained information from the customers about the purpose and intended nature of the business relationship as well as monitored accounts/transactions on ongoing basis to make sure that these transactions are consistent with our knowledge about customer. The all documentary evidences in this respect were already shared with your staff.*
- c) *The documentary evidence in respect of beneficial ownership of account holder is already provided.*
- d) *With respect to ongoing monitoring of clients, we already submitted a 63-columns detailed report titled "Enhanced Due Diligence Summary Report" vide Annexure-AJ of our letter dated April 26, 2019. We were also already attached different clients reports titled 'Evaluation for Qualification/Inclusion Suspicious Transactions' as, evidence for ongoing due diligence vide our letter dated 22-03-2019. With respect to automatic alert generation system, the same is acquired by Pearl Securities Limited and working properly*
- e) *With respect to the senior management approval for high-risk clients, the same were already sent to you. These approvals were already sent to your office with our letter dated 22-03-2019 vide Annexure-K and once again sent on 26-04-2019 vide Annexure-AK, The evidence with respect to enhanced due diligence for identification of source of funds 'wealth were already sent on 26-04- 2019 vide Annexures AL to AV*
- f) *As per information available with us we have reported all politically exposed persons to Pakistan Stock Exchange, kindly communicate us the any information available at your end and not with us."*

5. The Respondent was accorded hearing opportunity on July 04, 2019, on which date Mr. Ahsan Hashmi (CEO) and Mr. Muhammad Wasim (Head of Operations) attended the hearing as Authorized Representatives. During the hearing proceedings, the Authorized Representatives reiterated the argument as submitted in response to the SCN.

6. I have examined the submissions of the Respondent and its Representatives. In this regard, it is observed that:

- a. With regard to the deficiencies observed in the AML/CFT policy, the Respondent in its reply admitted that its AML/CFT policy have been updated subsequent to the inspection and same is under process of approval from board of directors. Furthermore, the Respondent during the hearing admitted the said deficiencies in its AML/CFT policy. In view of the aforesaid, the Respondent is non-compliant with the provisions of Regulation 4(a) of the AML Regulations.





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- b. With regard to the lack of CDD measures in respect of 11 clients, the Respondent in response to SCN provided copies of internal working for the CDD of these clients which includes information such as residential status, legal status, amount paid & amount received, source of income, inception of account, third party payments & receipt etc. However, such information is only in report form and no supporting documents have been provided in this regard. Further, the Respondent in reply submitted that it had already provided the requisite information to the inspection team. It is however noted that except for one client, the Respondent failed to address the observations of the inspection team. Therefore, the Respondent is found non-compliant with Regulation 6(3) of the AML Regulations.
- c. With regard to the beneficial ownership of one account holder, the Respondent during the hearing stated that the mother of the account holder is the actual beneficial owner of the account. The Respondent in its reply submitted a hand written letter from the account holder specifying the mother as the beneficial owner of this account. However, the Respondent was asked to provide consent letter from the mother, which it failed to submit. Therefore, the Respondent is found non-compliant with Regulation 6(5) of the AML Regulations.
- d. With regard to ongoing monitoring of the clients, the Respondent provided an excel sheet as evidence of ongoing monitoring. In this regard it is observed that certain columns of the excel sheet such as revised risk category, compliance status and actions initiated are empty. Moreover, the said sheet cannot be taken as satisfactory evidence for the on-going monitoring of its clients. Further, the Respondent has not provided satisfactory evidence regarding automatic alert generation system that capture ML/TF warnings signs/ red flags. Therefore, the Respondent is found non-compliant with Regulation 13 of the AML Regulations.
- e. With regard to senior management approvals in case of high risk clients, the Respondent submitted that it has provided the said approvals to the inspection team. In this regard it is observed that the inspection team accepted the information provided by the Respondent regarding senior management approval vide its letter dated March 22, 2019. Therefore no action is warranted in the said matter.
- Further with regard to EDD of eight of its clients, the Respondent submitted that it had already provided the requisite information to the inspection team. In this regard, it is observed that the inspection team after considering the documents





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submitted by the Respondent maintained its stance. Moreover, the reply of the Respondent provided to the inspection team is examined. It is observed that the Respondent had not performed the EDD of its clients to establish the source of funds/wealth or beneficial ownership of its clients. Therefore, the Respondent is non-compliant with the provisions of Regulation 9(4)(b) of the AML Regulations.

- f. With regard to the identification of one client as PEP, the Respondent accepted the observation of the inspection team and reported the said client as PEP to the PSX. Therefore no action is warranted in the said matter.

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 and 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. Further, the Respondent is advised to:
- implement an on-going monitoring mechanism for its clients,
 - and develop an alert generation system that capture ML/TF warnings signs/red flags,
 - and complete CDD profiles of all its clients in compliance with the AML Regulations.

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

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.



(Shauzab Ali)
Commissioner (SMD)

Announced on August 01, 2019
Islamabad