



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN
(Securities Market Division)
Adjudication Department

Through Courier

File No. 1(117) SMD/ADJ/KHI/2018

October 29, 2018

Pearl Securities (Private) Limited,
Through its Chief Executive officer,
Room # 204, 2nd Floor,
Business & Finance Centre,
Karachi.

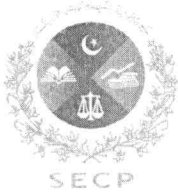
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(117) SMD/ADJ/KHI/2018

Dear Sir,

Please find enclosed herewith a copy of order in the title matter for your record and necessary action.

Yours truly,

Kamal Ali
Additional Director



Securities and Exchange Commission of Pakistan
Securities Market Division

Before the Commissioner (SMD)

In the matter of Show Cause Notice Issued to
Pearl Securities Limited

| | |
|-------------------------------|--|
| <i>Date of Hearing</i> | <i>September 19, 2018</i> |
| <i>Present at the Hearing</i> | <i>Muhammad Wasim, Head of Operations of Respondent</i> <i>Muhammad Ahsan Hashmi, Chief Financial Officer of Respondent</i> |
| <i>Place of Hearing</i> | <i>Through Video Conference from Regional Office, Karachi</i> |

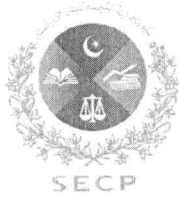
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(117) SMD/ADJ/KHI/2018 dated September 03, 2018. The SCN was served on Pearl Securities Limited (“**Respondent**”) by the Securities and Exchange Commission of Pakistan (“**Commission**”) under section 150 of the Securities Act, 2015 (“**Securities Act**”). The Respondent is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited (“**PSX**”) and licensed as a securities broker with the Commission under the Securities Act and the Securities Brokers (Licensing and Operations) Regulations, 2016 (“**Brokers Regulations**”).

2. Brief facts of the case leading to issuance of SCN are that the Commission vide order dated September 13, 2017, in exercise of the powers conferred under section 138 of the Securities Act, conducted inspection wherein a thematic review of compliance status of regulatory requirements relating to Anti Money Laundering (“**AML**”), Know Your Customer (“**KYC**”) and Customer Due Diligence (“**CDD**”) was carried out of the Respondent. The inspection report dated April 27, 2018 (“**Report**”) *inter alia* revealed the following:

- (i) Regulation 4.17 of the PSX Regulations requires brokers to ensure their approved KYC/CDD policies are effectively disseminated to and understood by the relevant personnel. In this regard, the Respondent provided evidence of circulation of its AML and KYC/CDD policies. However, the documentation lacked identification of employee name and department. Moreover, the acknowledgements of employees dated October 10, 2016 provided by the Respondent contained only 10 signatures whereas the number of relevant persons at the organization as per employee list was more than that as covered under the policy of the Respondent.
- (ii) The Respondent’s KYC/CDD/AML policy did not cover the aspect of maintenance and reporting of Currency Transaction (CTR) as required under the KYC/CDD Guidelines of PSX. Moreover, KYC/CDD policy of the Respondent did not include area of ‘Employee Screening’ and ‘Compliance Function’ as stated in KYC/CDD Guidelines of PSX.
- (iii) As per KYC/CDD Guidelines of PSX, brokers are required to obtain and document sufficient information on the purpose and intended nature of account to be opened/maintained with them and develop a profile of the customer based on results of





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customer identification and risk assessment. Brokers are also required to maintain and document the information and record relating to customers' business and risk profile, historical pattern of transactions, and pattern and source of funding of the account. It was observed that investment profiling of customer had not been documented by the Respondent as specified in the KYC/CDD Guidelines of PSX. The KYC/CDD checklists furnished by the Respondent did not address the requirements of the PSX Guidelines.

- (iv) It was observed that customer information provided by the Respondent did not contain information regarding source of funds and nature of income contrary to requirements of the KYC/CDD Guidelines of PSX.
- (v) The risk categorization maintained by the Respondent was not in accordance with KYC/CDD Guidelines of PSX. The Respondent informed that all its customers were low risk. Hence, the existence of online customers and non-resident customers indicated lack of proper risk categorization by the Respondent as the KYC/CDD Guidelines of PSX require such customers to be categorized as High Risk. Instances noted in this regard are summarized below:

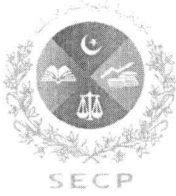
| Code | Client Name | Status | Risk Categorization as by Respondent | Risk Categorization as per KYC/CDD Guidelines |
|------|----------------------|----------------------------|--------------------------------------|---|
| AH7 | Syed Umar Viqar | Foreign Individual / NICOP | Low | High |
| AK36 | Muhammad Zahid Iqbal | Foreign Individual / NICOP | Low | High |
| AP46 | Roomana Imran | Individual/ IBTS Client | Low | High |
| AW3 | Amir Waheed | Individual/ IBTS Client | Low | High |

This also indicated that the Respondent had not performed Enhanced Due Diligence (EDD) for its High Risk customers as required under KYC/CDD Guidelines of PSX.

- (vi) It was observed that there was lack of documentation of following customers of the Respondent at the time of account opening of clients for High Risk customers:

| Code | Client Name | Risk Status | Remarks |
|------|----------------------|----------------------------|--|
| AH7 | Syed Umar Viqar | Foreign Individual / NICOP | <ul style="list-style-type: none">- Lack of proper documentation like source of funds, KYC/CDD checklist etc.- Designation of person who signed Account Opening Form (AOF) and CDC Sub-Account Opening Form (SAOF) on behalf of PSL- As per KYC/CDD checklist of client, it shows that the ultimate beneficiary of the funds is not the client itself hence EDD has not been conducted as required under the guidelines. Further no details of source of income of the client was provided along with the CDC Sub Account opening form |
| AK36 | Muhammad Zahid Iqbal | Foreign Individual / NICOP | <ul style="list-style-type: none">- Signature of the client "Alone Malik" on AOF and SAOF. Moreover, his signature on NICOP are not visible- Designation of person who signed Account Opening Form (AOF) and CDC Sub-Account Opening Form (SAOF) on behalf of PSL- Lack of proper documentation like source of funds, KYC/CDD checklist etc.- No details of source of income of the client was provided |
| AP46 | Roomana Imran | Individual/ IBTS Client | <ul style="list-style-type: none">- Occupation mentioned in AOF is "House hold" |





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| | | | |
|-----|-------------|----------------------------|--|
| | | | <ul style="list-style-type: none">- Designation of person who signed Account Opening Form (AOF) and CDC Sub-Account Opening Form (SAOF) on behalf of PSL- Lack of proper documentation like source of funds, KYC/CDD checklist etc.- The KYC/CDD checklist of client shows that the ultimate beneficiary of the funds is not the client itself, and evidence regarding the ultimate beneficiary of the account is not provided, hence EDD has not been conducted as required under the guidelines. Further no details of source of income of the client was provided along with the CDC Sub Account opening form |
| AW3 | Amir Waheed | Individual/ IBTS Client | <ul style="list-style-type: none">- Occupation mentioned in AOF is "House hold"- AOF and SAOF are not signed by PSL Senior Management Official- Lack of proper documentation like source of funds etc.- KYC/CDD checklist of client shows that the ultimate beneficiary of the funds is not the client itself, hence EDD has not been conducted as required under the guidelines. Further no details of source of income of the client was provided along with the CDC Sub Account opening form |

(vii) It was noted that the profile of following customer of the Respondent did not match with her high trading volume during the months of July and August 2017:

| Client Code | Client Name | Occupation | Risk Rating by PSL | Source of Fund as per PSL |
|-------------|---------------|------------|--------------------|---------------------------|
| 2426 | Aruna Farrukh | House Wife | Low | Not provided |

Review of client ledger of the aforementioned customer for the period from July 1, 2017 to August 31, 2017 revealed the following:

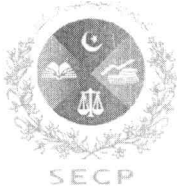
1. Various receipts accumulating to Rs. 45 million were credited in the ledger within two days (from July 05, 2017 to July 06, 2017)
2. As per client transaction details report for the period July – August 2017; details of trades are as under:

| Market | Buy Amount | Sell Amount |
|---------------|-------------|-------------|
| Ready Market | 605,209,685 | 530,809,328 |
| Future Market | 72,757,505 | 78,471,270 |

No details of source of income of the said customer was provided along with the CDC Sub-Account opening form. As per CDC setup report and account opening form page 1 her occupation was 'housewife'. Further, the KYC/CDD checklist of the customer showed that the ultimate beneficiary of the funds was not the customer itself, and evidence regarding the ultimate beneficiary of the account was not provided. Moreover, she had been assigned Low Risk rating whereas it should be High considering she is a family relative of Politically Exposed Person in accordance with the Respondent's checklist and KYC/CDD Guidelines of PSX. Hence, Enhanced Due Diligence had not been conducted as required under the Guidelines.

(viii) While reviewing the Policy & Procedures for Non-residents/ Overseas Investors of the Respondent, it was observed that the Compliance Committee comprises of CEO, CFO and Head of Operations. The composition of such committee appears to lack





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independence and objectivity of compliance function as required under the regulatory framework. As per the KYC/CDD Guidelines of PSX, Head of Compliance must be independent and must report directly to the Board of Directors of the broker.

- (ix) While comparing the records maintained by the Respondent in compliance with Circular 10 of 2017 issued by the Commission, with data obtained from NCCPL for all markets for the month of July 2017, the following instances were observed which were not included in the records maintained by the Respondent:

| UIN | UIN_NAME | UIN CLASS | Net Value (Million) |
|-----------------|----------------|------------|---------------------|
| 17201-2168452-7 | Muhammad Iqbal | Individual | 8.30 |
| 37405-0459609-5 | Mobeen Khalid | Individual | 5.60 |

- (x) In view of absence of customer identification, improper risk assessment and categorization of clients, absence of enhanced due diligence, lack of ongoing due diligence and less effective compliance function reporting structure, it appeared that the Respondent did not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.

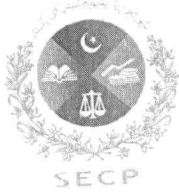
3. It appeared from the foregoing that the Respondent *prima facie* was in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations and the Know Your Customer & Customer Due Diligence Guidelines issued by PSX on March 16, 2012.

4. The Commission took cognizance of the aforementioned alleged violations and served the SCN dated September 03, 2018 under section 150 of the Securities Act to the Respondent. The Respondent was called upon to Show Cause in writing within seven days from the date of receipt of the SCN and the case was scheduled for hearing before the undersigned on September 18, 2018. The Respondent filed written reply to the SCN vide letter of September 12, 2018. Hearing in the matter was adjourned and held on September 19, 2018.

5. The submissions made by the Respondent in response of the SCN and verbally during the course of hearing are summarized as under:

- (i) *The KYC/CDD/AML policies were initially disseminated to those staff members of the company who directly deal with clients and pertains to front office and back office of the company. However, as per your advice we got signed these policies from all of our employees.*
- (ii) *The "Employee Screening" and "Compliance Function" are separately covered under our HR Policy and Compliance and Risk Policy. However, as per your advice we not cover these aspects also in our KYC/CDD/AML policy.*
- (iii) *The investment profiling of the clients is being maintained. The KYC/CDD checklist of all clients is made and filed properly, however, previously it did not cover all aspects as required by KYC/CDD guidelines.*
- (iv) *The client information earlier provided by us includes information regarding occupation of account holder. As per your earlier observation we have amended the said report and the information regarding source of fund/nature of income is also included in this report.*





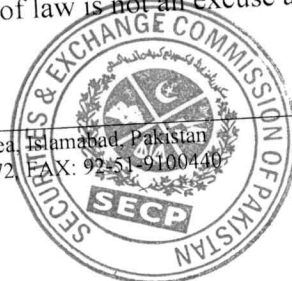
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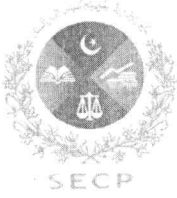
- (v) *The risk categorization was initially based upon the receipt of funds in local or foreign currency. Now the categorization is made as per guidelines and all NICOP holder clients and online clients are marked as High Risk.*
- (vi) *As mentioned in para (v) above the clients having NICOP and using online trading facility are marked as High Risk instead of Low Risk, the documentation related to all High Risk clients is increased. Likewise the name and designation of the officials who signed the account opening forms on behalf of Pearl Securities Limited is also mentioned properly. The observation made by the SECP regarding ultimate beneficiary of the client/account holder was due to clerical mistake at our end, as the officer responsible for completing KYC of clients, mistakenly ticked the wrong column.*
- (vii) *The client Ms. Aruna Farrukh is also marked as High Risk now as per your advise... As per your observation (which was not in our knowledge earlier) that she is family relative of a politically exposed person, we have tried to verify the same.*
- (viii) *As per your observation the composition of compliance committee has now changed and the Compliance Head is now directly reporting to the Board of Directors of the Company.*
- (ix) *As per your earlier observation we now maintained the records of all clients having business of more than Rs.5 million in our brokerage house.*
- (x) *As mentioned above, all your observations now account for accordingly, viz; proper customer identification, proper risk assessment and categorization of clients, implementation of system of enhanced due diligence and proper due diligence as well as effective compliance function reporting, the company is now properly monitoring and remaining alert regarding suspicious transaction, if any.*

6. I have heard the arguments presented by Representatives of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework and written response filed by the Respondent. The primary allegation against the Respondent is that it was in non-compliance with provisions of the relevant laws mentioned in para 3 above.

7. Before arriving at a decision, it is pertinent to mention that regulatory requirements relating to KYC/CDD and AML have been implemented since the year 2012 considering the public interest, integrity of the Pakistani capital market and the country's international commitments. Hence, all licensed persons are expected to ensure strict compliance with this regime by remaining vigilant and putting in place requisite policies and procedures to curtail activities relating to money laundering and financing of terrorism. The Commission has adopted a zero tolerance policy towards any gaps in this area and will not show any leniency for non-compliances in future.

8. Based on the above and the fact that the Respondent has accepted most of the non-compliances in its response and during the course of the hearing, most of which have been rectified, I have reasons to conclude that it is established that the Respondent was guilty of misconduct in terms of section 150(5) of the Securities Act, as the Respondent is non-compliant with provisions of relevant laws mentioned in para 3 above. The Respondent has argued that some of the non-compliances identified were unintentional and due to lack of comprehension of the relevant legal framework. However, ignorance of law is not an excuse as the regulatory





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framework has been in effect since the year 2012 and the Respondent could have sought guidance of PSX or the Commission.

9. In view of the foregoing, violations of the regulatory framework committed by the Respondent are established. However, it was observed based on the response and during the course of the hearing that the Respondent did not have complete understanding of the regulatory framework. While ignorance of law is not an excuse as the regulatory framework has been in effect since the year 2012, since the thematic review of the Respondent for AML, KYC and CDD has been carried out for the first time, I have decided to take a lenient view. Considering the same, no monetary penalty is being imposed, however, the Respondent is strictly warned to ensure compliance with the relevant legal framework.

10. Furthermore, the Commission will carry out a follow-up review within due course of time to assess whether the aforementioned violations have been rectified by the Respondent and in case of continued non-compliance, the Commission shall adopt a stringent course of action.

11. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on matter subsequently investigated or otherwise brought to the knowledge of the Commission.




(Shaukat Hussain)
Commissioner

Announced on October 29, 2018
Islamabad.