



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN  
SPECIALIZED COMPANIES DIVISION  
(ADJUDICATION)

Before the Commissioner (SCD)

In the matter of Show Cause Notice under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 read with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 for violations of inter-alia, Regulation 4(d), Regulation 6(2), 6(3), 6(4), Regulation 6(5a), Regulation 9(2)(b), Regulation 9(4) read with Regulation 9(3), Regulation 11(2) and Regulation 13(3) of the AML and CFT Regulations, 2018.

Date of hearing:

September 4, 2019

Present (on behalf Pak Oman Asset  
Management Company Limited)

- i. Ms. Sadaf Kazmi, CEO
- ii. Mr. Muhammad Farrukh, CFO

Assisting the Commissioner (SCD)

- i. Ms. Bushra Aslam, Executive Director
- ii. Ms. Tanzila Nisar Mirza, Additional Director

**ORDER**

This Order shall dispose of proceedings against Pak Oman Asset Management Company Limited (“POAMC”, the “Company”), which is a public limited company licensed to undertake the business of Asset Management and Investment Advisory, initiated through Show Cause Notice (the “SCN”) bearing No.SCD/AMCW/ADJ/39/2019-26 dated August 26, 2019 under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 for violations of inter-alia, Regulation 4(d), Regulation 6(2), 6(3), 6(4), Regulation 6(5a), Regulation 9(2)(b), Regulation 9(4) read with Regulation 9(3), Regulation 11(2) and Regulation 13(3) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (“AML and CFT Regulations”).

2. A scope specific inspection of POAMC was ordered under powers conferred upon the Securities and Exchange Commission of Pakistan (“SECP or the Commission”) under Section 282I of the Companies Ordinance, 1984 vide inspection order bearing number SCD/S&ED-IW/POAMCL/2019/121 dated May 15, 2019. The scope of the inspection extended to review and assess the level of compliance of the AMC with respect to the AML and CFT Regulations. However, during the course of inspection, various violations/non-compliances were observed. The inspection team highlighted several deficiencies in the customers’ record/documentation (selected on sample basis) which were in violation of several provisions of AML and CFT Regulations.



3. The Company was called upon to show cause in writing as to why penal action should not be taken against the Company for violations of Regulation 4(d), Regulation 6(2), 6(3), 6(4), Regulation 6(5a), Regulation 9(2)(b), Regulation 9(4) read with Regulation 9(3), Regulation 11(2) and Regulation 13(3) of the AML and CFT Regulations. A written reply was received vide letter dated September 6, 2019 from the Company (after the hearing) wherein the contentions made in the SCN were categorically addressed. The following arguments were provided in the reply;

- i. With respect to contents of para 3(i) of the SCN, the AMC claimed that in compliance with the Regulation 11(2) of AML and CFT Regulation, the decision to classify the customer as low risk was being justified in writing. For this purpose, the compliance officer had developed a Customer Due Diligence Questionnaire Form for individual as well as for corporate investors. Further, from March 2019 onwards, all the investors were being marked as low, medium or high risk, depending on their risk profile.

The AMC emphasized that for active investors, Management was endeavoring to screen through all the files within two months. The unit holding system provided by IT Minds (a wholly owned subsidiary of Central Depository Company of Pakistan Limited) has the provision to screen the details of the director(s), trustee(s), authorized signatories and beneficial owners from the list and prescribed persons sanctioned list.

- ii. With respect to contents of para 3(ii) of the SCN, the AMC asserted that investors falling in the category of "Trust" have been categorized as high-risk investors after obtaining the approvals from the senior management, in order to comply with Regulation 9(2)(b) of AML and CFT Regulations.
- iii. With respect to contents of para 3(iii) of the SCN, the AMC submitted that in compliance with Regulation 9 of AML and CFT Regulations, all the investors were marked as high, medium or low, as per the classification of risk, at the time when data was migrated to IT Minds in October, 2017. The AMC further mentioned that since March 2019 the unit-holder registers were being scrutinized from time to time and the investors were being reclassified in a comprehensive way to comply with AML and CFT Regulations.
- iv. With respect to Point 3 (iv) of the SCN, the company reiterated that Internal Audit function had been strengthened, in order to comply with regulation 4(d) of AML and CFT Regulations, after taking the responsibility of the operations of the Company in March 2019.
- v. In reference to point 5(a), the Company highlighted that risk profiling was ensured at the time when data was migrated, and thereafter the management had developed the due diligence mechanism through a questionnaire form, based on which risk profiling exercise for customer will be repeated again and risk category would be



re-assigned accordingly. The AMC also stated that emails had been sent to the investors for obtaining their proof of income. However, alternatively the management endeavors to verify the income through Tax Directory.

- vi. In reference to point 5(b), the company stated that M/S. Trading Enterprises has redeemed its entire amount on May 14, 2019.
- vii. In reference to point 5(c), the company mentioned that Form A, valid CNIC of principle investor and Board resolution for opening of account of M/S East West Insurance Company had been obtained.
- viii. In reference to point 5(d), the company did not furnish any argument.
- ix. In reference to point 5(e), the company highlighted that the investor had redeemed his entire amount on August 7, 2019.

4. The hearing in the matter took place on September 4, 2019 wherein Ms. Sadaf Kazmi, CEO and Mr. Muhammad Farrukh, Head of Compliance appeared on behalf of the Company. The arguments consisted of the assertions contained in the written reply. The Respondents submitted that they inherited a set-up that was not fully compliant with the AML and CFT Regulations. The CEO highlighted that she and most of the management had taken charge in March 2019, as a consequence of which they had inherited the legacy of incomplete documentation and non-compliances with the AML and CFT regulatory framework.

5. The CEO emphasized that the new management of POAMCL was fully up to the task and has adopted zero-tolerance policy with regard to internal controls and compliance related matters and is very serious about adopting and implementing applicable SECP guidelines. This is also evident by the improvements the new management has made since March 2019. Hence, the management is keen to adopt KYC/AML and CFT related regulatory framework (as per the SECP Guidelines) and this will definitely improve and strengthen the internal controls of the company with the passage of time. The CEO asserted that only old accounts remain to be screened for which requires one and a half months time to complete.

6. The CEO also reiterated that since her joining in March 2019, efforts were being made at a much faster pace and she was trying her best to improve the compliance function. In this regard, the compliance function has already been beefed up with additional resources, exclusively for ensuring that requisite documents were obtained to verify the identity of the customer and the beneficial owners.

7. I have analyzed the facts of the case, considered the documentary evidence placed on record, along with the arguments put forth by the Respondent Company. In my opinion, POAMC needs to take cognizance of weaknesses in existing procedures and systems and take steps to improve and strengthen its operational procedures and systems including conducting comprehensive training programs for its staff. I am of the considered view that given more time the current renewed focus





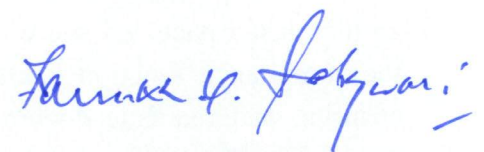
and continuous monitoring will bear fruit. I am also of the view that POAMC is required to focus on the review and monitoring on a continuous basis. She must demonstrate the same vigor in planning and implementing an overhaul of the AML/CFT compliance framework.

8. I am of the view that AMCs should continue to demonstrate the highest standards of professionalism by complying with all regulatory directives from time to time, which are issued for the protection of markets and investors. Any undue delay or negligence in compliance of such directions cannot be viewed leniently. Even if the fault lies with previous management all AMCs are required to ensure compliance with the AML/CFT regulatory framework in letter and spirit. Therefore, POAMC is hereby directed to provide a time bound plan by September 30, 2019, wherein it should provide a roadmap for ensuring complete compliance with the AML and CFT regulatory framework.

9. However, based on my observation at paras 7 and 8 above, I am of the considered view that leniency on non-compliance towards requirements of Regulation 4(d), Regulation 6(2), 6(3), 6(4), Regulation 6(5a), Regulation 9(2)(b), Regulation 9(4) read with Regulation 9(3), Regulation 11(2) and Regulation 13(3) of the AML and CFT Regulations is not possible, since SECP is responsible for ensuring implementation and enforcement of the applicable regulatory framework by entities that fall under its regulatory ambit. Therefore, I hereby conclude the proceedings initiated under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 by imposing an aggregate fine of Rs.250,000 (Rupees two hundred and fifty thousand only) on the Respondent.

10. The aforesaid fine must be deposited in the designated bank account maintained with MCB Bank Limited in the name of SECP within seven days from the date of receipt of the order. The receipt or bank challan is to be furnished to SECP. In case of non-deposit of penalty within the given time, a penalty of Rs.25,000 per day, during which the default continues shall be charged, after which proceedings for recovery of the fine as arrears will be initiated.

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



**(Farrukh H. Sabzwari)**  
Commissioner (SCD)

**Announced on:**  
**September 17, 2019 at Islamabad.**