

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

In the matter of Show Cause Notice issued to M/s. S.D Mirza Securities (Pvt) Limited

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Date of Hearing

January 27, 2020

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**Order-Redacted Version**

Order dated March 6, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of S.D Mirza Securities (Pvt) Limited. Relevant details are given as hereunder:

<b>Nature</b>	<b>Details</b>
1. Date of Action	Show Cause notice dated January 14, 2020
2. Name of Company	S.D Mirza Securities (Pvt) Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. S.D Mirza Securities (Pvt) Limited
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for violations of inter-alia Regulation 4(d), 6(5a), 6(8), 9(4) and 13(3) of AML and CFT Regulations, 2018
5. Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have examined the submissions of the Respondent and its Representatives. In this regard, I observe that:</p> <ol style="list-style-type: none"><li>i. With regard to the deficiencies in the Screening Mechanism, it was observed that the Respondent had performed screening of its clients to the extent of nominee only. Whereas, it did not maintain a database for forward and backward beneficiary of its clients for effective screening of such persons against the list of proscribed persons/ entities by UNSC &amp; NACTA. The Respondent during the hearing provided that it has now developed an electronic database for its backward and forward beneficiaries for system-based screening of such persons. However, the remedial measures were taken subsequent to the observation made during the review. During the Review, it was also observed that the Respondent was using Google Platform for</li></ol>



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	<p>screening of its clients against proscribed persons/ entities. However, the Respondent did not maintain record of such screening process. The Respondent provided that subsequently, it has integrated its system with websites of NACTA and UNSC for effective screening mechanism. In view of the submissions, the contravention of Regulation 4(a) &amp; 13(7) of the AML Regulations was observed during the Review.</p> <p>ii. With regard to the Verisys of identity documents in respect of its clients, nominees, joint account holders, BODs, Trustees, administrators, executors and authorized persons in 15 instances, the Respondent submitted that it was conducting NADRA verification through NCCPL as third-party reliance. However, it does not absolve responsibility of the Respondent to conduct verification of identity documents through its own mechanism. The Respondent provided evidence of verification of the said persons arranged through the NCCPL website subsequent to the Review. Therefore, the Respondent was found non-compliant with Regulation 6(4) read with Note (i) of Annexure-I of the AML Regulations.</p> <p>iii. With regard to identification of beneficial owners and documentary evidence of business, profession, occupation and source of income of 2 clients, the Respondent submitted copy of tax return &amp; business letter of one client's father who is the ultimate beneficial owner of the account. However, the said information was arranged subsequent to the observation highlighted during the review. In case of second client, the Respondent failed to provide documentary evidence with regard to business income or bank statements at the time of review. The Respondent was therefore, found non-compliant with Regulation 6(3)(a) of the AML Regulations.</p> <p>iv. With regard to the source of income/ funds of the housewife as mentioned in the SCN, the Respondent provided a copy of tax return as per which the client's net assets amount to Rs. 23 million to corroborate with the level of trading activity and custody in the client's account. Therefore, violation of Regulation 14(3) &amp; 14(6) regarding Suspicious Transaction Reporting may not be established based on insufficient evidence against the said client. However, the Respondent failed to produce documentary evidence regarding source of income/ funds of the said client during the review and was therefore, found non-complaint with Regulation 6(3)(c) of the AML Regulations.</p>
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	<p>In the view of the foregoing and the admission by the Respondent, contravention of the provisions of the AML Regulations have been established. Therefore, in term of the power conferred under Section 40A of the Act, a penalty of Rs. 375.000/- (Rupees Three Hundred and Seventy-Five Thousand Only) is hereby imposed on the Respondent. The Respondent is advised to enforce the provisions of AML Regulations in letter and spirit.</p> <p>Penalty order dated March 06, 2020 was passed by Executive Director (Adjudication-I).</p>
6. Penalty Imposed	A penalty of Rs. 375,000/- (Rupees three hundred and seventy-fifty thousand) was imposed on the Company.
7. Current Status of Order	No appeal was filed.

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