

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

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

Date of Hearing

June 24, 2020

Order-Redacted Version

Order dated July 20, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Sherman Securities (Pvt.) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated April 27, 2020
2. Name of Company	Sherman Securities (Pvt.) Limited
3. Name of Individual*	Not relevant. The proceedings were initiated against the Company i.e. Sherman Securities (Pvt.) Limited.
4. Nature of Offence	Proceedings under Section 40A of SECP Act, 1997 for the violations of Regulation 4(a), 6(4), 7(1)(b), 11(2), 6(3)(c) and 13(1) of the AML/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 written as well as oral submissions of the Respondent and its Authorized Representatives. In this regard, I observe that:</p> <ul style="list-style-type: none">i. With respect to the violation of Regulation 4(a), the Authorized Representatives could not exhibit the evidence that at the time of Inspection, Respondent was maintaining centralized database of beneficial owners, authorized person of its clients & BOD/Trustees/office bearers of its clients, enabling it to perform screening of account holders/nominees/authorized persons from the list of proscribed persons/designated individuals.ii. The contention of Respondent that if customer shows original identification document during account opening along with providing photocopy of same, then NADRA Verisys is not required, is not



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	<p>acceptable. The Respondent was required to comply with the regulatory framework wherein validation from NADRA Verisys is mandatory. During the hearing the Respondent admitted the SCN facts regarding non-validation the photocopies or identity documents of its six customers through NADRA Verisys. Further, the Respondent also did not submit documentary evidences in respect of obtaining source of income/funds and proof of business of its one identified client. Therefore, violation of Regulation 6(4) of AML Regulations on part of Respondent is evident.</p> <p>iii. During the hearing and in reply of the SCN, the Respondent admitted the SCN facts regarding non-compliance of Regulation 7(1)(b) of the AML Regulations.</p> <p>iv. Respondent has failed to furnish any evidence of recording justification for categorizing customers as low risk as required in Regulation 11(2) of AML Regulations. The Respondent contended that customers were categorized as Low Risk based on their KYC/CDD checklist duly signed by the Compliance Officer and Head of Operations risk, which serve as a substitute of written justification required under the Regulation. The said contention of the Respondent is not plausible. Authorized Representatives submitted that going forward Respondent ensure compliance of the regulation and will record the justifications for categorizing customers as low risk.</p> <p>v. The Authorized Representative admitted the default of Regulation 6(3)(c) and 13(1) in three identified cases and submitted that in two identified instances, Respondent has complied with the requirement of the Regulation subsequent to the inspection by obtaining necessary documentation including copy of financial statements of clients. In respect of third instance Respondent informed that client could not be contacted despite its effort.</p> <p>In view of the foregoing and admission made by the Representatives, contraventions of provisions of AML Regulations 4(a), 6(4), 7(1)(b), 11(2), 6(3)(c) and 13(1) have been established. Therefore, in terms of powers conferred under section 40A of the Act a penalty of Rs. 650,000/- (Rupees six hundred fifty thousand) is hereby imposed on the Respondent. 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.</p> <p>Penalty order dated July 20, 2020 was passed by Executive Director (Adjudication-I).</p>
1. Penalty Imposed	A penalty of Rs. 650,000/- (Rupees six hundred and fifty thousand only) was imposed on the Company.



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2. Current Status of Order	An appeal has been filed against this Order.

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