



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

Through Courier

File No. 1(132) SMD/ADJ/KHI/2018

October 29, 2018

Standard Capital Securities (Private) Limited,
Through its Chief Executive officer,
909, 9th Floor, Business & Finance Center,
I.I. Chundrigar Road,
Karachi.

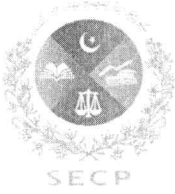
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(132) SMD/ADJ/KHI/2018

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
Standard Capital Securities (Private) Limited

<i>Date of Hearing</i>	<i>October 11, 2018</i>
<i>Present at the Hearing</i>	<i>Naushad Chamdia, CEO</i> <i>Waqar Ahsan, Director</i> <i>Khurram Jah, Authorized Representative</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office,</i> <i>Karachi</i>

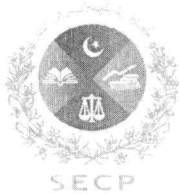
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(132) SMD/ADJ/KHI/2018 dated September 03, 2018. The SCN was served on Standard Capital Securities (Private) 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 11, 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 May 03, 2018 (“**Report**”) *inter alia* revealed the following:

- (i) It was observed that the KYC/CDD policy provided by the Respondent was not comprehensive and did not elaborate several aspects as stipulated in the KYC/CDD Guidelines of PSX. Further, the Respondent had also not covered some key areas in its policy including risk assessment of customers and laws and regulations as required under clause 3.3 and 13 of the KYC/CDD Guidelines of PSX read with the Anti Money Laundering Act, 2010 and Anti Money Laundering Regulations, 2015. The Respondent accepted the same and informed that its policy shall be updated.
- (ii) As per the PSX Regulations, a securities broker shall ensure that its KYC/CDD policies are effectively disseminated to and understood by the relevant personnel. It was noted that the Respondent had not provided any evidence regarding dissemination of its KYC/CDD policies and procedures to all relevant employees. The Respondent stated that the policy is either communicated verbally or print out are handed over to the employees.
- (iii) Circular 10 of 2017 issued by the Commission requires brokers to maintain record of customers having trades above the prescribed threshold. While reviewing the trading data provided by NCCPL for the months of July and August 2017, it was noted that





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the following customers had crossed the minimum threshold as defined under the said Circular. It was noted that these customers were initially marked as Medium Risk and (i) column of "Compliance status and action initiated" was marked as "No", (ii) column of revised category has been reported as "No", (iii) Enhanced Due Diligence was not performed, and (iv) column of action initiated had been reported as "No".

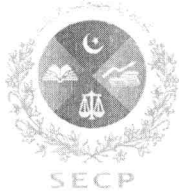
Month	Client Code	Client Name	Occupation as Sub-account Form	Risk Category	Net Traded Amount
July	SCS0300	Mohammad Bilal Moon	Student as per hard Copy of Sub-Account Opening Form and Service as per CDC setup report.	Medium	54,111,775
July	SCS1366	Zubaida	House Wife	Medium	5,971,065
July	257	Ijaz Ahmed	Business	Medium	7,610,669
August	234	Shehnaz Abdul Rehman	House Wife	Medium	7,997,505
August	SCS1145	Taimur Shah	Service.	Medium	34,467,049

- (iv) The Respondent had not accurately calculated the net traded amount of its customers, as required under Circular 10 of 2017 issued by the Commission, who breached the prescribed threshold. The Respondent informed that the said difference was due to MTS transactions which the Respondent had not collected for reporting:

As per Team - July 2017		As per Respondent - July 2017	
UIN NAME	Net Buy	Name	Net Buy
IJAZ AHMED	16,029,281.00	IJAZ AHMED 257 (RT) 39713	17,129,281
MOHAMMAD BILAL MOON	54,111,775.36	MOHAMMAD BILAL MOON - SCS0300 (ONLINE) 19467	44,855,953
NISAR AHMED	8,696,639.25	NISAR AHMED SCS1920 (ONLINE) 54431	8,200,638
SHEIKH SHAHID ANWER	7,610,669.58	SHEIKH SHAHID ANWER SCS1713 (ONLINE) 50199	7,638,341
STANDARD CAPITAL SECURITIES (PRIVATE) LIMITED	29,702,571.50		
TAQI RAZA	6,155,125.00		

- (v) The Respondent had not taken reasonable care to establish proper profile of clients. Based on information furnished by the Respondent, it was observed that it had not mentioned detail and nature of occupation of the following customers, contrary to requirements of the KYC/CDD Guidelines of PSX. For instance proof of employment, nature of business and source of income not attached with Account opening forms.
- Zubaida (Client code SCS1366), source of income not attached
 - Mohammad Bilal Moon (Client code SCS0300), Student as per hard Copy of Sub-Account Opening Form and Service as per CDC setup report.
 - Naveed Ahmed Khan (Client code Q080), details on income not provided
 - Muhammad Haroon Agar (Client code 1166), Proof of business not attached.
 - Mohammad Siddique (Client code SCS0961) - KYC Form not Filled.
 - Shehnaz Abdul Rehman (Client code 234), source of income not attached





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- (vi) It was observed that the Respondent had not documented risk appetite of its customer and the source of funds as required under the KYC/CDD Guidelines of PSX. For instance, customers namely Ms. Zubaida (Client code SCS1366) and Ms. Shahnaz Abdul Rehman (Client code 234) are high net worth individuals and marked as housewives but the Respondent had not ascertained their source of income. Therefore, lack of customer profiling may lead to improper risk assessment and categorization thus illustrating lack of on-going due diligence by the Respondent.
- (vii) It was observed that the Respondent had not conducted proper customer risk categorization based on customer's identity, nature of income, source of funding, and location/domicile of customer. For instance, the following online customers had been either marked as Low Risk or Medium Risk whereas, the KYC/CDD Guidelines of PSX suggest to mark such customers as High Risk. Further, the customer namely "Zubaida" is a housewife and the Respondent had not applied Enhanced Due Diligence based on the incomplete profile:
- a. Nisar Ahmed (client code SCS1920)
 - b. Sheikh Shahid Anwar (client code SCS1713)
 - c. Zubaida (client code SCS1366)
 - d. Mohammad Bilal Moon

The following corporate legal entities had also been marked as Low Risk to Medium Risk in contravention of the KYC/CDD Guidelines of PSX:

S. No	Name of Customer	Risk categorized by Respondent	As per Guidelines
1	Noor Financial Investment Company	Low Risk	High
2	Pair Investment Company Limited	Low Risk	High
3	Agar International (Private) Limited	Low Risk	High

- (viii) The Respondent had marked one of its customers namely Sardar Shahbaz Ali Khan Khosa as "High Risk". However, based on absence of documentary evidence it has been observed that:
- a. the Respondent had not performed Enhanced Due Diligence when dealing with the customer;
 - b. activities and transactions of the High Risk customer were not monitored and any unusual transactions are not reported in a Suspicious Transaction Report (STR);
 - c. No proof provided/attached with the account opening form that approval of senior management was obtained to open High Risk account; and
 - d. The Respondent had not taken reasonable measures to establish the source of wealth and source of funds.
- (ix) The KYC/CDD Guidelines of PSX require that there has to be on-going training of brokers, their employees and agents to ensure that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily. The Respondent vide email dated October 27, 2017 informed that its employees had not taken any training relating to KYC/CDD.
- (x) The KYC/CDD Guidelines of PSX require the broker to have a compliance function with suitable human resource. Absence of adequate human resource in compliance function had been observed and there was only one employee dedicated to ensure all compliance related matters. Mr. Waqar Ahsan Kapadia was the Compliance Officer and handling all matters relating to compliance.





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- (xi) The KYC/CDD Guidelines of PSX require that the compliance officer of the broker shall report to its Board of Directors. The Compliance Officer of the Respondent vide email dated October 30, 2017 informed that he reports to the Chief Executive Officer of the company.
- (xii) The KYC/CDD Guidelines of PSX require that a record should be maintained of all violations/non-compliances identified and reported to the Board of Directors which must also be available for the inspection by the Commission and the securities exchange as and when required. The Respondent was required to share compliance reports however its compliance officer informed that he does not prepare any written reports for the Board of Directors.

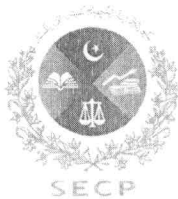
3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations 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 24, 2018. The Respondent filed written reply to the SCN vide letter of September 18, 2018. Hearing in the matter was rescheduled and held on October 11, 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) *We are redesigning our KYC/CDD policy and also trying to include all the key areas as described in guidelines.*
- (ii) *We will comply as being designated by guidelines. We further seek commissions advice & subsequent training on the subject.*
- (iii) *We will place mentioned clients as 'high' risk & perform due diligence. Since it's a new thing hence we are working to improve system.*
- (iv) *We have already told you that this is because of MTS transaction. Details attached*
- (v) *We agree on your assertion and will send nature of business & source of income from mentioned clients in due course.*
- (vi) *There were two accounts that belong to two house wives in which one Mrs Shahnaz Abdul Rehman (client code 234) is a joint account with her husband. And her husband is HNW client. However, we are enquiring about second one. We have asked the client to close the account if she doesn't give proof of nature of business and source of income.*
- (vii) *We have marked all illustrated accounts in your report as "high risk" and we are trying to collect their source of income.*
- (viii) *This is politically influential person. He is not responding us despite our several reminders (copies of evidence). At that time your regime wasn't implemented /followed when the account was opened. We will report transaction in STR once there would be a transaction. We have permanently barred him from buying transaction because he is not clearing debit balance in his account due to MTS Losses. We seek guidance from commission to guide us as to where brokers train staff to maintain compliance of KYC/CDD.*





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- (x) *Waqar Ahsan Kapdia is not only one person in compliance. There are two other persons namely Amberen Khan & Hammad Kamran are also assisting him.*
- (xi) *Standard Capital BOD consist of two Directors. One is CEO and second is Waqar Ahsan Kapdia – in future this thing will be regularized. We have appointed another compliance officer.*
- (xii) *From now on all violations will be recorded and reported in BOD meeting.*
- (xiii) *Respondent stated that it has been encountering practical challenges relating to collection of source of income/funds as clients threaten to close their accounts. Cost of business is becoming increasingly difficult.*
- (xiv) *Respondent suggested that KYC should be centralized at CDC or NCCPL and clients should not be allowed to open accounts without KYC so that there is an even playing field.*

6. I have heard the arguments presented by Representative 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 acted 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.

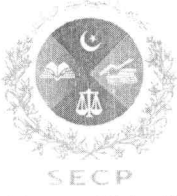
8. Based on the above and the fact that the Respondent has accepted almost all non-compliances in its response and during the course of the hearing, which have been rectified or are being rectified, I have reasons to conclude that it is established that the Respondent was guilty of misconduct in terms of section 150(5) of the Securities Act, as the Respondent is non-compliant with provisions of relevant laws mentioned in para 3 above.

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.



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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.



(Handwritten Signature)
(Shaukat Hussain)
Commissioner

Announced on October 29, 2018
Islamabad.