



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

Through Courier

File No. 1(121) SMD/ADJ/KHI/2018

October 29, 2018

Taurus Securities Limited,
Through its Chief Executive officer,
Office No.604, 6th Floor, Progressive Plaza,
Beaumont Road, Civil Lines,
Karachi

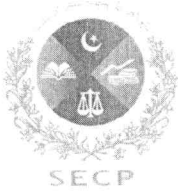
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. File No. 1(121) SMD/ADJ/KHI/2018

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
Taurus Securities Limited

<i>Date of Hearing</i>	<i>September 24, 2018</i>
<i>Present at the Hearing</i>	<i>Syed Zain Hussain, CEO</i> <i>Syed Waqar-ul-Hassan</i> <i>Iqbal Rasheed</i> <i>Anum Sajjad</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office,</i> <i>Karachi</i>

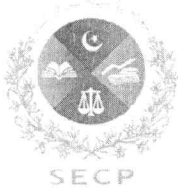
ORDER

This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(121) SMD/ADJ/KHI/2018 dated September 03, 2018. The SCN was served on Taurus 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 12, 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 02, 2018 (“Report”) *inter alia* revealed the following:

- (i) It was observed that the KYC/CDD/AML policy of the Respondent did not cover the aspect of maintenance and reporting of Currency Transactions (CTR) as required under the KYC/CDD Guidelines of PSX read with Anti Money Laundering Act, 2010 and Anti Money Laundering Regulations, 2015 (AML Regulations). The Respondent informed that it would add CTR related provisions in its policy. Further, the red flags indicators as identified in the AML Regulations were not covered in the KYC/CDD/AML policy of the Respondent. The Respondent informed that red flags indicators were covered separately in its Compliance Manual however, no documentary evidence for the same was furnished.
- (ii) The Respondent had not documented investment profiling of the following customers as specified in the KYC/CDD Guidelines of PSX based on the customer’s identity, nature of income, source of funding, location/domicile of customer, etc.:
 - a. Khursheed Bano Iqbal (42301-15709188-8) – Source of income is not identified and marked as “Others”. Moreover, in CDC sub-account opening form the said client is defined as housewife and has only source of income “dividends”. The





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Respondent has not performed Enhanced Due Diligence or revised the risk rating based on the trading pattern of the said client. Further, it is pertinent to mention that compliance report submitted by the Respondent for the months of July 2017 and Aug 2017 in compliance with Circular 10 of 2017 issued by the Commission the said client has crossed the minimum trading threshold in both the months.

- b. Natasha Iqbal (42000-6370872-4) – Source of income not identified. Information provided by the Respondent has stated remarks “Business” in field of occupation. However, as per CDC sub-account opening form the said client is CEO of a private company but no salary slip or any other evidence to confirm the source of income has been obtained by the Respondent.
- (iii) The Respondent had not conducted KYC/CDD of authorized representative of the following accountholder. The Respondent informed that this is a Joint Account and as per procedure the names of all three account holders are mentioned in the column of authorized persons to operate the joint account. The KYC/CDD had been done as at the time of account opening all three joint account holders disclosed their sources of income and their identities had been verified through NADRA. However, it was observed that the KYC/CDD forms of authorized representative/joint account-holders were not attached with the account opening forms:

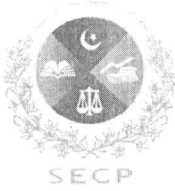
Code	Client Name	Risk Status	Remarks
19136	Hizbullah Memon	Medium Risk	KYC / CDD of authorized representatives are not done.

- (iv) It was noted that the profile of following customer of the Respondent did not match with his high trading volume during the month of August 2017 which shows lack of on-going due diligence and risk assessment on part of the Respondent as required under the KYC/CDD Guidelines of PSX. Review of client ledger for the period July 1, 2017 to August 31, 2017 revealed that the customer’s trading did not match his profile and the Respondent had only obtained a letter which confirms financial support from the father. No extended KYC/CDD had been performed on part of the father of the customer:

Client Code	Client Name	Occupation	Risk Rating by Respondent	Source of Fund as per Respondent
138727	Ihsan Ali	Student	Low	-

- (v) As per Circular 10 of 2017 issued by the Commission, brokers are required to maintain a record of customer whose trading has surpassed the minimum prescribed threshold in a prescribed format defined by the Commission. While reviewing the record provided by the Respondent for the month August 2017, it was noted that certain customers have crossed the minimum threshold as defined under the said Circular. Such customers were initially marked as Low Risk based on the threshold however (i) risk category was not re-considered, (ii) Enhanced Due Diligence was not performed, (iii) for ensuring “Compliance status” only the standardized account opening form was reviewed, and (iv) no other action was initiated, by the Respondent.
- (vi) In view of absence of customer identification, improper risk assessment and categorization of clients, absence of enhanced due diligence and absence of ongoing due diligence, it appeared that the Respondent did not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.





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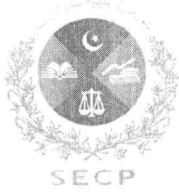
3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations 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 12, 2018. Hearing in the matter was held on September 24, 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) *KYC/CDD policy stipulates the TSL must comply the requirement AML Act. Keeping in view the above Board approved policy, TSL incorporated the requirement of STR, CTR, Red flags etc. in the Compliance Manual which is also approved by the Board. We would like to clarify that the KYC/CDD Guidelines did not mentioned the Currency Transaction Reporting (CTR) specifically. In future, we will be introducing new/revised Guidelines.*
- (ii) *All the relevant documentation relating to investment profiling of Khursheed Bano Iqbal and Natasha Iqbal have been obtained and documented. Relevant supporting documents furnished.*
- (iii) *Due to a joint account, the KYC/CDD form is also a joint form for all three salaried individuals. However, the separate client identities (CNIC), addresses, Mobile numbers and sources of income have been provided by all three joint account holders. Further, the verification of bank account of main account holder (Hizbullah Memon) had also been done before opening of account and also verified CNIC of all three account holders through NADRA (VERYSIS). Respondent agreed during the hearing that separate KYC forms shall be obtained from all joint account holders.*
- (iv) *TSL has been performed on going CDD based on different parameters including the trading volume. The said client is a student and financial support has been obtained from his father. In accordance with the CDD, a copy of the father's employment card has been obtained and confirmed via recorded lines by TSL's compliance department, which further substantiates that he (i.e. the father) is the financial supporter of his son (being the mentioned client). Further, during TSL's constant ongoing CDD process, the said father's a Bank Statement of Accounts were obtained and the name of the Financial Supporter (being the father in the instant matter) was checked in the Active Tax Payer List of FBR.*
- (v) *For customers crossing the threshold under Circular 10, during ongoing process of Customer Due Diligence, TSL keeps a proactive approach and follows a practice to monitor the client's trading/investment activities on the basis of volume of 100k shares, trade value of Rs.2 million, revenue generated of Rs.100k in a month and compare/review the same with the profile of the respective clients. Further, during ongoing CDD process, when any customer surpasses the minimum threshold as prescribed in the PSX Guidelines, the additional documents/information are obtained*





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from the respective clients and various steps are taken. Respondent claims that same clients come up repeatedly so it has done on-going CDD of these clients from time to time. Thus, as such no actions were required to be taken once they crossed the threshold.

- (vi) *TSL maintains proper record of client documents/ information and reviews the investment/transactions of the clients as an ongoing process of CDD. TSL have internal control and checks in each department and a separate Compliance Department and Internal Audit functions as per regulatory requirements. TSL also remain aware of continuous advancements in technology etc. and hence are constantly striving to further improve their systems and methodology in this regard, and remain on par with international standards for such checks and balances.*

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. In order to arrive at a decision, it is essential to consider that:

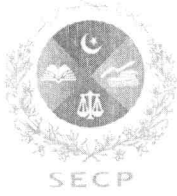
- (i) Respondent has stated that it shall revise its KYC/CDD policy to include relevant requirements under the KYC/CDD Guidelines of PSX read with the AML Act and Regulations; and
- (ii) it is essential that KYC/CDD of all customers is performed regardless of single or joint accountholders. Respondent accepted that KYC forms of all joint accountholders shall be obtained.

8. 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.

9. Based on the above and the fact that the Respondent has accepted certain non-compliances in its response and during the course of the hearing, which shall be 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.

10. 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.





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11. 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.

12. 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.


(Shaikat Hussain)
Commissioner

Announced on October 29, 2018
Islamabad.

