

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

In the matter of Show Cause Notice issued to Taurus Securities Limited

Date of Hearing	November 25, 2020 and December 07, 2020
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Order-Redacted Version

Order dated December 23, 2020 was passed by Executive Director/Head of Department (Adjudication-I) in the matter of Taurus Securities Limited. Relevant details are given as hereunder:

Nature	Details
<ul style="list-style-type: none">• Date of Action	Show Cause notice dated October 15, 2020.
<ul style="list-style-type: none">• Name of Company	Taurus Securities Private Limited.
<ul style="list-style-type: none">• Name of Individual	The proceedings were initiated against the Company i.e. Taurus Securities Limited.
<ul style="list-style-type: none">• Nature of Offence	Proceedings under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997.
<ul style="list-style-type: none">• Action Taken	<p>Key findings of default of Regulations were reported in the following manner:</p> <p>I have carefully examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondents. I am of the considered view that the Respondents did not ensure their compliance with the mandatory provisions of the Regulations in the following instances:</p> <ul style="list-style-type: none">• The Inspection team highlighted that the Respondent has categorized its customers and their related associated persons such as Joint account holder/nominees/authorized trustees/persons/Board of directors/trustees/office bearers/belonging to high risk jurisdiction geographical regions as 'low risks'. The Company in its reply to LOF had stated that it had updated risk category of its clients on the basis of the geographical locations. The Company also stated that all of its customers belonging to porous borders had been marked as high-risk customers, however, customers belonging to Peshawar were marked as "medium risk". The Respondent is of the view that for the purposes of EDD, enquires were sent to the clients well before the LOF and the Respondent had changed the risk level of its clients well before the LOF dated 10.03.2020. The Respondent also submitted that the risk category of clients was changed after NRA 2019 and the same was reported to the Commission in December 2019 vide letter dated December 30, 2019. It was also furnished that the Respondent had marked 477 clients as Medium/Low risk clients (out of 477 clients, 422 were appearing in medium risk), whereas remaining 196 clients were marked as high risk. It was also informed that all customers belonging to porous borders had been

marked as "high" risk i.e. around 135 clients, who belonged to porous borders like Malakand, Karak, Waziristan etc., however, customers belonging to Peshawar were not in the vicinity of the porous borders and were marked as "medium risk". The Respondent also provided a copy of letter addressed to the Commission vide dated December 30, 2019 containing list of 427 clients, having revised risk rating of "medium" from "low" and were mainly from Peshawar, evidencing that risk ratings of clients were revised well before the date of LOF. I have also perused related supporting documents annexed with letter dated December 30, 2019, which revealed that the record pertained to the period from June 1, 2019 to November 30, 2019. As per the said annexure, the Respondent changed risk category of 427 clients from "low" to "medium", and risk category of 97 clients from "low" to "high" and risk category of 6 clients from "medium" to "high". As per the aforesaid document, 103 clients were re-categorized from "medium" to "high" risk category, wherein written reply it was informed that all customers belonging to porous borders, i.e. 135 clients were marked as "high risk". Aforesaid substantiates that the information provided to the Commission vide letter dated December 30, 2019 was not pertaining to entire review period of inspection i.e. December 1, 2019 to February 29, 2020 rather it was for the period from June 1, 2019 to November 30, 2019. Moreover, perusal of the above, also highlights that subsequent to initiation of inspection, customers who were rated as "high risk" were 135 vis-a-vis 103 customers as per information shared with the Commission, evidencing subsequent risk categorization of clients. The Respondent also shared a copy of letter dated December 8, 2020 addressed to AML Department of the Commission seeking clarification about Peshawar city falling in the porous border jurisdiction. In this regard, the AML Department vide email dated December 22, 2020, inter alia, clarified that: "In response to other points raised in your letter, please note that proximity to porous borders, invariably exposes your entity to additional risks that may be local or transnational in nature. While Peshawar is city is not in the border region, its close proximity to the border and as business center for the border region makes it highly vulnerable to money laundering and terrorist financing risk. We agree that risk category should not be marked as high risk simply on the basis of jurisdiction alone, and while proximity diligence, your risk rating of an individual customer of the risk presented to you. This analysis and evaluation must be documented to support your risk rating. In this regard, please note the requirement of Section 7 F Risk Understanding as per AML Act 2010 which requires that "every reporting entity shall take appropriate steps to identify, assess and understand the risks to which its business is subject to, in accordance with this Act and as

prescribed". However, in this regard it is highlighted that the Respondent sought clarification vide letter dated December 8, 2020, i.e. after one year of NRA 2019. As regards applicability of S.R.O 55(1)/2020 dated January 28, 2020, I, am of the view that since review period of the Company is from December 1, 2019 to February 29, 2020, and in terms of SRO 55(1)/2020, quarterly report was due from March quarter of 2020, so, no further action is warranted for the aforesaid review period. To conclude, it is highlighted that the evidence of letter dated December 30, 2019 was not comprised of the entire review period of inspection, and subsequent to reporting through aforesaid letter, the Company's "high" risk customers increased from 103 to 135. Hence, I, am of the view that the Respondent could not justify the position that risk categorization of the clients was updated before the issuance of LOF.

- As regards a client, who was marked as house wife, having securities worth Rs. 156.82 million, and nil trading activity during the review period, for her proof of income/ source of funds, following documents were provided (i) copy of gift deed dated November 22, 2012, for transferring 600,000 shares of BIL in favor of Ms. ZAK issued by donor SFA, (b) a letter dated nil evidencing that Ms. ZAK source of income is from dividends and rental income (c) copy of tax return for the year 2019, having print date of December 11, 2019. The Respondent also informed that the aforesaid client was marked as "inactive" and the shares as mentioned were in the custody of the Respondent. The Respondent also furnished a copy of tax return, having print out dated October 28, 2020, of the donor of the shares, and bank statement for the period May 1, 2019 to July 31, 2019. As per the tax return of the donor, his major source of income was capital gains on sale of securities. As per available information shared by the inspection team, the Company through its various letters to the client, sought sources of income, bank statement, beneficial ownership form, updated CRF etc., however, as stated, the client did not furnish reply. The Respondent, however, during the course of the aforesaid proceedings, placed reliance that the client was marked as "inactive" and tax return of the client for the year 2019. In this regard, it is also highlighted that follow up letters to client ZAK were written with significant delay i.e. on November 2019, December, 2019, February 2020 so they had not made effort to obtain updated information despite the fact the AML Regulations were notified in 2018, in violation of Regulation 6(3) (a), 6(3) (c), 6(10), and 9(4) (b) of the AML Regulations.

In view of the foregoing facts, I, am of the considered view that the Respondent was found complacent in ensuring compliance of the requirements of the AML Regulations as narrated in above paras and supporting evidences in this regard

	<p>were either not found or were deficient to prove the stance of the Respondent Company. Moreover, as highlighted by the inspection team, significant documentary evidences were not shared with the inspection team in support of various allegations levelled. Therefore, in terms of powers conferred under section 40A of the Act, a penalty of Rs. 400,000/- (Rupees four hundred thousand) is, hereby, imposed on the Respondent Company.</p> <p>Penalty Order dated December 23, 2020 was passed by Executive Director (Adjudication-I).</p>
<ul style="list-style-type: none"> Penalty Imposed 	Penalty of 400,000/- (<u>Four Hundred Thousand only</u>) was imposed.
<ul style="list-style-type: none"> Current Status of Order 	Appeal was filed against the Order.

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