



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

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*Through Courier*

File No. 1(123) SMD/ADJ/KHI/2018

**October 29, 2018**

**Topline Securities Limited,**  
Through its Chief Executive officer,  
Office # 507, 508 & 508-A,  
5<sup>th</sup> Floor, Continental Trade Center, Clifton,  
**Karachi.**

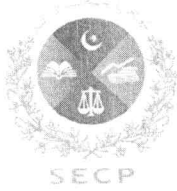
**Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 10, 2018, BEARING NO. 1(123) SMD/ADJ/KHI/2018**

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  
Topline Securities Limited

<i>Date of Hearing</i>	<i>September 27, 2018</i>
<i>Present at the Hearing</i>	<i>Muhammad Sohail, CEO</i> <i>Muzaffar Iqbal, Head of Audit</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(123) SMD/ADJ/KHI/2018 dated September 10, 2018. The SCN was served on Topline 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”).

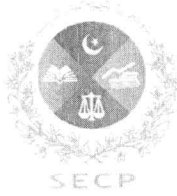
2. Brief facts of the case leading to issuance of SCN are that the Commission vide order dated September 13, 2017, in exercise of the powers conferred under section 138 of the Securities Act, conducted inspection wherein a thematic review of compliance status of regulatory requirements relating to Anti Money Laundering (“AML”), Know Your Customer (“KYC”) and Customer Due Diligence (“CDD”) was carried out of the Respondent. The inspection report dated April 27, 2018 (“Report”) *inter alia* revealed the following:

- (i) The Respondent had not furnished acknowledgements of dissemination of its KYC/CDD/AML policies to the following employees. Regulation 4.17 of the PSX Regulations requires that these policies should be effectively disseminated to and understood by the relevant personnel:

S.No	Employee Name	Designation
1.	Syed Uzair Ahmed	Manager It & Research
2.	Mohammad Shahid Mansoori	Kats Operator
3.	Muhammad Arshad	Kats Operator
4.	Muhammad Saad Abdullah	Senior Analyst Advisory
5.	Adnan Sami Sheikh	Research Analyst
6.	Faizan	Kats Operator
7.	Syed Ali Ahmed	AVP-Corporate Finance & Advisory
8.	Syed Tahir Imam	Head Of Commodities & Business Development
9.	Umer Salah Ahmed	Head Of Corporate Finance & Advisory

- (ii) The Respondent had not covered the maintenance and reporting of Currency Transaction aspects under its approved KYC/CDD/AML policy. Moreover,





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KYC/CDD policy of the Respondent also did not include area of “Employee Screening” as stated in KYC/CDD Guidelines of PSX.

- (iii) The Respondent had not documented investment profiling of customers as specified in the KYC/CDD Guidelines of PSX.
- (iv) Risk categorization conducted by the Respondent for the following customers was not in accordance with the KYC/CDD Guidelines of PSX. As per the KYC/CDD checklist provided by the Respondent, non-residents are required to be classified as High Risk customers. Further, in case of foreign customers, documents relating to KYC/CDD were inadequate:

Code	Client Name	Status as per UIN	Risk Categorization by Respondent	Risk Categorization as suggested in KYC/CDD Guidelines
A396	Jahangir Amir	Foreigner	Low	High
P221	Muhammad Ali Rafiq	Foreigner	Low	High
A475	Liaquat Ali Malik	Foreigner	Low	High
P275	Yasir Saeed	Foreigner	Low	High
P989	Renaissance Securities (Cyprus) Ltd.- IBD	Foreigner	Low	High
P353	Morgan Stanley Mauritius Company Limited	Foreigner	Low	High
A156	City of New York Group Trust	Foreigner	Low	High
P999	Brandes Institutional Equity Trust	Foreigner	Low	High
P916	Consilium Frontier Equity Fund, L.P.@Bny	Foreigner	Low	High

Further, it was observed that online trading customers were not categorized as High Risk as required in KYC/CDD Guidelines of PSX.

The above indicates that the Respondent had not performed Enhanced Due Diligence (EDD) for its High Risk customers as required under KYC/CDD Guidelines of PSX.

- (v) The Respondent had not classified the following customers when its categorization list was compared with the UIN report:

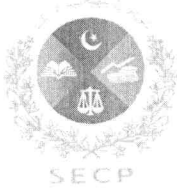
Code	Client Name	As per the Respondent's Client List	As per UIN Report
A396	Jahangir Amir	Local Individual	Foreigner
P275; A425	Yasir Saeed	Local Individual	Foreigner

- (vi) It was observed that complete registration particulars of the following customers were not available in Back Office Registration of the Respondent:

Code	Name of Client	Address	Email
A169	WEST VIRGINIA INVESTMENT MANAGEMENT BOAR	Address not mentioned	Email ID is not mentioned
A513	EGSHARES EM CORE EX-CHINA ETF	Address not mentioned	Email ID is Mentioned
P353	MORGAN STANLEY MAURITIUS COMPANY LIMITED	Address not mentioned	Email ID is Mentioned
P908	DVI FUND MAURITIUS LTD.	Address not mentioned	Email ID is not mentioned

- (vii) While comparing the broker wise UIN wise trading data from NCCPL in line with Circular 10 of 2017 issued by the Commission for the month of July 2017 with details





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maintained by the Respondent as required under the said Circular, difference in reporting of net traded amount between NCCPL and the Respondent was noted for the month of July 2017:

Code	Client Name	Net traded amount as per NCCPL	Net traded amount as per Respondent	Excess/ (Short) Recording by Respondent
A181	EVTC CIT FOR EBP-EVTC PARAMETRIC SEM CORE EQUITY FUND	94,559,187	96,332,397	1,773,210
A251	ADAMJEE LIFE ASSURANCE COMPANY LIMITED	55,426,117	28,093,475	(27,332,642)
A516	CONSILIUM EM SMALL CAP FUND LP	25,643,899	26,006,799	362,900

It therefore appeared that the Respondent failed to maintain summary report of its customers having net investment above or equal to the threshold. Further, customer risk categories were also not revised and Enhanced Due Diligence was not performed as required by the Circular 10 of 2017.

- (viii) In the case of following customer of the Respondent it was noted that his occupation detail was not updated in accordance with his trading pattern, from which it appears that the Respondent lacks on-going due diligence as required under the KYC/CDD Guidelines of PSX. As per NCCPL, his net trading is Rs.10.057 million:

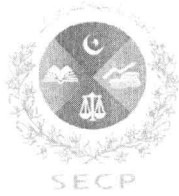
Code	Client Name	Occupation as per CDC setup report	Account opening date
2628	Muhammad Umair Fattani	Student	Apr-14-2010

- (ix) It was noted that the profile of following customers of the Respondent did not match with their high trading volumes during the month of August 2017:

Client Code	Client Name	Occupation	Risk Rating by TSL	Source of Fund as per TSL	*Gross Investment during August 2017 (in value)
0517	Farzana Haroon	House Wife	Low	Saving/ Investment	24,288,760
A343	Rukhsana Bano	House Wife	Low	Saving/ Investment	243,307,323
P709	Sara Yahya	House Hold	Low	Saving/ Investment	60,269,733
P336	Shazia Munir	House Wife	Low	Saving/ Investment	58,724,970
A341	Mehreen Salman	House Hold	Low	Saving/ Investment	28,204,405
P470	Syed Iftikhar Ul Hasan Zaidi	Retired Person	Low	Savings	513,080,946
2634	Nisar Ahmed Mughal	Retired Person	Low	Savings	20,999,677

- (x) The KYC/CDD Guidelines of PSX require brokers to ensure that all receipts and payments to customers above the prescribed threshold must be through cross cheques, bank drafts, pay orders or other crossed banking instruments. For exceptional circumstances where it becomes necessary for a broker to accept cash from a





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customer, reporting of such instances with rationale should be made to the securities exchange. This aspect had not been covered in the Respondent's AML policy.

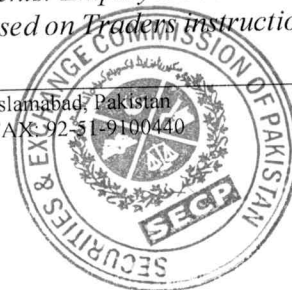
- (xi) It was observed that Mr. Khalid Mehmood was holding the positions of Chief Financial Officer and Company Secretary with the Respondent. In addition to the said positions, he had been designated as Compliance Officer, hence compromising the role of compliance officer in its true letter and spirit. The Respondent had also accepted the same.
- (xii) The Respondent had submitted a response wherein only the Compliance Officer had attended an awareness session at PSX. No documentary evidence was furnished by the Respondent regarding on-going training of the employees that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily, as required under the KYC/CDD Guidelines of PSX.
- (xiii) The Respondent had submitted compliance reports for the month of July and August 2017. However, no documentary evidence was furnished regarding submission of the report to the Board, as required under the KYC/CDD Guidelines of PSX. Further, findings of the report pertain to registration details irregularities and email bounce backs. However, the reports did not cover areas such as segregation of clients' assets, in-house financing, and risk categorization, and compliance with other regulatory framework including KYC/CDD and AML Act related matters such as CTR or STR, contrary to requirements of the regulatory framework.

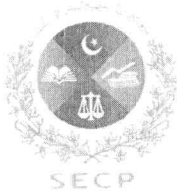
3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o), 16(8) and 16(9)(e) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX 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 10, 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 18, 2018. The Respondent filed written reply to the SCN vide letter of September 25, 2018. Hearing in the matter was rescheduled to September 26, 2018 and later rescheduled on request of the Respondent and held on September 27, 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) *As per practice all employees are provided copies of all company policies and these are normally distributed through various methods As per 4.1 7 of PSX rule book above mentioned policies should be effectively disseminated to and understood by the relevant personnel. Definition of relevant personnel is not available in regulations and as per our understanding of relevant personnel we have taken signature of all relevant staff on KYC/CDD/AML policies. We believe that those staff that deals with Clients at the time of account opening and later for trading and settlement purpose are relevant persons. These include Traders and employees in Operations, Compliance and Settlement Department. Employee in serial No 1 is Manager IT and Research and he don't deal with brokerage clients. Employees in serial No 2, 3 and 6 are computer operators who punch orders based on Traders instructions. Serial No*

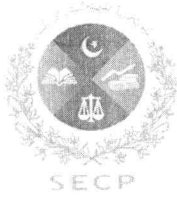




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- 5 is Research Analyst who are not involved in client trading and account settlement and payment. Employees in Serial No 4, 7 and 9 are in our Investment Banking and Corporate Finance Dept. and they are not involved in brokerage client dealing. Employee in Serial 8 deals in Business Development of Commodities and was not involved in brokerage dealing.
- (ii) AML Act is part of our AML Policy of the company and Currency Transaction are compiled in line with the provision of Act. Further, Company following clause 3.8 of Guidelines company receives and pays all payments above Rs25000 through cross cheque. Any cash transactions above that limit is also reported to the exchange. We have strict policy of not dealing in cash. We have stated in our KYC/CDD policy that "The Company will follow guidelines issued by the Stock exchange via its notice No. KSEIN-1388 dated March 16, 2012 and ensure compliance of checklist attached with these guidelines". By inserting the above clause we have incorporated the entire PSX KYC guidelines including Employee Screening. Moreover practically we are also doing employee screening before hiring any employee. The company conducts a background check with their previous employer wherever such exercise is required and applicable. Moreover, adequate reference is also obtained from the new employee.
- (iii) We have documented the risk profiling and investment profiling as mentioned in the KYC/CDD guidelines. Risk categories has been already provided to SECP. Investment profiling is also done separately that covers areas like knowledge of market, experience, education, customer objective, sector and stock selection, age, occupation, etc. Two samples of Investment Profile are furnished.
- (iv) Risk categorization was conducted in accordance with the KYC/CDD guidelines of PSX. First 4 clients are local individual investors. Their payments are being made through their local bank accounts we have their local addresses and they have provided us their NIC/NICOP. Due to which we have marked them as Low Risk However NCCPL is marking them as Foreigner. Email send to NCCPL to find out the reason but did not got any reply. Regarding last 5 accounts these are well reputed and regulated foreign institutions whose settlement payment clearing and custody is done by commercial banks/non broker clearing member. These banks do their own KYC before opening SCRA and sub custody accounts. As KYC guidelines says that non-residents customers should be market as High Risk. We understand that non-resident customers mean nonresident individuals that is why we treated these as Low Risk. All required documentation is available of these clients. Online customers does not mean they will trade only through KITS. They have taken KITS facility in case they want to trade online. Most of the time these clients trade through normal KATS. Thus these clients are actually not online and are thus categorized accordingly. Respondent also argued during the course of hearing that the foreign trusts mentioned in the SCN are in fact financial institutions.
- (v) As explained in point iv the 2 clients (A396 and P275) provided their local bank details and local address therefore based on that they are marked as local individual. However NCCPL database treat them as foreigner.
- (vi) These 4 are all well-known and established corporate entities. We have inserted all relevant data in the Back Office System. Though some data was not in Back Office system but all relevant information like email, phone number, etc is available with us. Trades of these clients are settled, cleared by reputable banks as mentioned below who are approved clearing member of PSX. These banks open SCRA (special





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convertible rupee accounts), custodian account and do their KYC and have all details of these clients as they receive money and make payment to them. Respondent confirmed during hearing that the missing registration details have now been updated.

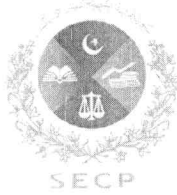
- (vii) During the thematic review and in reply to various queries we requested to please share NCCPL working so that we can review and provide our detailed reconciliation or explanation in this regard. Since we have not received NCCPL net traded amount we cannot say why there is a difference. However in case of A181 and A516 the difference could be due to tax or/and commission. We maintain all summary reports and do regular risk assessment of clients and enhance due diligence.
- (viii) We opened the account of Mr. Muhammad Umair Fattani on April 14, 2010 as a student. We have updated the risk profile of Mr. Umair Fattani as a business individual. Respondent stated during the hearing that the occupation of this customer was rectified after it was highlighted by the inspection team;
- (ix) In relation to profiles of customer not matching with their high trading volume, ready future arbitrage and trading in leverage market (especially Futures) results in volume increasing many times due to rollover of the futures position. However actual volume is not high due to which we have marked as Low Risk. Table below shows gross and net investment as per our data and comments

Client Code	Client Name	Comments
0517	Farzana Haroon	Future hedging/arbitrage in TRG Aug is main part of volume in Aug 2017. This is a hedging strategy that has low risk. However, this increased volume trading as evident during this month.
A343	Rukhsana Bano	She is being sponsored by her husband Muhammad Raza Farishta who is one of the owner of Five Star Traders Karachi involved in export business.
P709	Sara Yahya	Sara Yahya rolled over her 1 position of 250,000 shares in Aug 2017. The volume is due to this 1 future rollover transaction.
P336	Shazia Munir	Major portion of Aug volume was in 1 stock that is ISL-Aug. Future increases the overall volume.
A341	Mehreen Salman	Also executed futures trade during the said month. She is being sponsored by Salman Parvez who is Director at PEXIMP Corporation SITE Karachi.
P470	Syed Ifiikhar Ul Hasan Zaidi	He maintains 2 accounts (ready and future). He is a high net worth individual and former senior executive of Saigol Group Lahore. In his future account he usually roll over his position. Majority of the volume in Aug 2017 is due to this futures trading. Futures trading multiplies monthly volume as the position needs to be roll forward to another contract. Thus multiplying/increasing volume without any major change in exposure.
2634	Nisar Ahmed Mughal	This is joint account of Nisar Ahmad Mughal and Fahad Mughal. Fahad is working as senior executive at Al Karam Textile Mills in Karachi.

- (x) Company did not receive cash from customer in excess of Rs.25,000. This can be verified from our books of accounts provided to the Commission for thematic review. We have also mentioned at our office the following statement as per the director of PSX: "The Principal Office cannot deal in cash except as provided in the Standardized Account Opening Form". Respondent stated during the hearing that the requirement of clause 3.8 of the KYC/CDD Guidelines of PSX Guidelines shall be inserted in its policy.

- (xi) It is not clear from clause 9 Compliance Function of PSX KYC Guidelines 2012 that Compliance Officer must not do only Compliance function. However, for your information we have hired an independent Internal Auditor in Oct 2017 to look after





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- audit and related functions. A new person was also hired in June 2018 to act as a Compliance Officer. Finance and other matters are looked by another person*
- (xii) *Various staff attended training sessions as per details furnished. Attendance can be verified from PSX. This is in addition to the awareness session attended by Khalid Mahmood. Comprehensive in-house training of all employee is undertaken at the time of his joining the Company. Further, the employees are required to regularly review, study and understand the notices/circulars/regulations issued by PSX and the Commission from time to time. Company provides complete assistance and in house training to employees in understanding the same. This is an ongoing process and is discussed in internal meetings regularly.*
- (xiii) *The Board Meeting of the Company is usually held on quarterly basis in which the compliance officer presents its reports. Any emergent matter is being communicated to the board either through emails, phone or letters. Where Compliance Officer has no observation related to segregation, in house financing etc. then it is not mentioned in the report. Extract of the minutes of board meetings furnished showing it was discussed in the board meeting.*

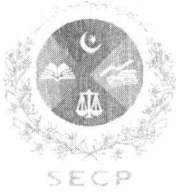
6. I have heard the arguments presented by Representative of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework and written response filed by the Respondent. The primary allegation against the Respondent is that it acted in non-compliance 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) with reference to Currency Transactions Reporting (CTR), the requirement of clause 3.8 of the KYC/CDD Guidelines of PSX is insufficient. This clause *inter alia* puts in place a requirement whereby cash exceeding Rs.25,000 accepted by brokers in exceptional circumstances from customers is required to be reported to the exchange. However, CTR reporting is stipulated in the AML Regulations 2015 where reporting beyond the prescribed threshold is required to be made to the FMU. Further, insertion of general provisions in the Respondent's policy, particularly with reference to compliance with AML Act, are not sufficient for the purposes of ensuring compliance with the KYC/CDD Guidelines of PSX;
- (ii) investment profiles furnished for two customers of the Respondent are neither dated nor signed and the same were not furnished to the inspection team;
- (iii) in relation to non-resident customers, NCCPL has confirmed that as far as the UIN report is concerned, it reflects the status which has been notified to NCCPL at the time of account opening. Any change in status will be made based on request of the relevant broker. Since the Respondent itself has confirmed that it has obtained NICOPs from some of its customers, it seems that the risk categorization for such customers as maintained by the Respondent was not in accordance with the KYC/CDD Guidelines of PSX;
- (iv) Respondent stated that the missing registration details of the corporate customers have now been updated. Evidence dated May 2018 was furnished which established that the information was updated post-inspection;
- (v) Respondent stated that the occupation of Mr. Umair Fattani was rectified after it was highlighted by the inspection team;







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- (vi) Respondent stated during the hearing that the requirement of clause 3.8 of the KYC/CDD Guidelines of PSX Guidelines relating to receipts/payments of cash from/to customer shall be inserted in its policy; and
- (vii) Respondent stated that a compliance officer has now been hired in June 2018.

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 have been rectified or are in the process of rectification, 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.

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.



(Shaukat Hussain)  
Commissioner

**Announced on October 29, 2018**  
Islamabad.