



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
Adjudication Department

No. 1(151)SMD/ADJ/KHI/2019

July 15, 2019

**WE Financial Services Limited**  
Through its Chief Executive Officer,  
Room # 506-508, 5<sup>th</sup> Floor,  
Stock Exchange Building,  
Stock Exchange Road,  
**Karachi.**

**SUBJECT: Order in Respect of Show Cause Notice dated May 06, 2019 Bearing Number No. 1(151) SMD/ADJ/KHI/2019**

Please find enclosed herewith a copy of order dated July 15, 2019 the title matter for your record and necessary action.

  
\_\_\_\_\_  
**Muhammad Faisal**  
Management Executive



**Securities and Exchange Commission of Pakistan**  
**Securities Market Division**

**Through Courier**

**Before the Commissioner (SMD)**

**In the matter of Show Cause Notice issued to M/s. WE Financial Services Limited**

Date of Hearing	May 24, 2019
Present at the Hearing Representing We Financial Services Limited	i. Mr. Humayun Javed (Chief Executive Officer) ii. Mr. Zia Javed (Director)

**ORDER**

This Order shall dispose of the proceedings initiated against the M/s. We Financial Services Limited (the "Respondent") through Show Cause Notice No. 1(151) SMD/ADJ/KHI/2019, dated May 06, 2019 (the "SCN") under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the "Act").

2. Brief facts of the case are that the Respondent is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited ("PSX") and licensed as a securities broker with the Securities and Exchange Commission of Pakistan (the "Commission"). The Commission, in exercise of the powers conferred under Section 169 of the Securities Act 2015, vide its inspection notice dated March 01, 2019 conducted review of compliance status in consonance with the regulatory requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML Regulations"). The team submitted its Report on April 04, 2019 ("Review Report") after receiving comments on the letter of findings dated March 25, 2019.

3. The Review Report revealed that the Respondent was found non-compliant with the following provisions of AML Regulations;

- a. AML Policy of the Respondent did not contain procedures, mechanism and controls to ensure compliance with AML Regulations.
- b. The Respondent had not provided any details relating to the implementation of independent audit function.
- c. Following discrepancies were found in Respondent's Know Your Customer ("KYC") & Customer Due Diligence ("CDD") procedures with regard to the sample clients.
  - The Respondent has not provided KYC/CDD forms for 02 of its clients.
  - The Respondent has not provided NTN certificate of its clients despite mentioning in KYC forms that the client has submitted NTN certificate.
  - KYC forms of clients were filled by other clients rather than employees of the Respondent.





## Securities and Exchange Commission of Pakistan Securities Market Division

- The Respondent did not obtain evidence relating to the income, business ownership and control structure of 19 client accounts.
- d. The Respondent categorized one of its clients as high risk. However, the Respondent failed to provide any evidence relating to the Enhanced Due Diligence (“EDD”) of such account.
- e. Risk rating assigned in the KYC form was not corresponding with the risk rating appearing in the Back Office of the Respondent. Further, the Respondent has categorized 14 sample clients as either low or medium risk without justification in writing.
- f. The Respondent has not provided mechanism and procedures for ongoing monitoring of its clients.
- g. The Report provides that the transaction executed in the certain clients’ accounts do not commensurate with their level of income and may be viewed as suspicious. Further, the Respondent has not documented the basis of deciding whether STR should be filed or not and has not kept the record together with all internal findings and analysis done in relation to a suspicion irrespective of the fact that transaction is subsequently reported or not therefore.
- h. The Respondent did not provide any evidence of training provided to their relevant employees on regulatory requirements and its own AML/ CFT policy.

4. In view of the aforesaid, the Respondent *prima facie* acted in contravention of the AML Regulations. The Commission therefore took cognizance of the aforesaid violations, issued SCN dated May 06, 2019 to the Respondent.

5. The Respondent was accorded hearing opportunity on May 13, 2019, which was adjourned on their request. Thereafter, hearing was fixed on May 24, 2019, which was attended by Mr. Humayun Javed (Chief Executive Officer) and Mr. Zia Javed (Director) as Authorized Representatives. During the hearing proceedings, the Authorized Representatives submitted that comments submitted in response to letter of findings were not primarily taken into consideration, so the same may be considered as our reply to the SCN. Simultaneously, the Respondent vide its letter dated May 24, 2019 reiterated its view point in its written reply and submitted that SECP’s oversight Committee had submitted their report to the Commission, after receiving their comments on the letter of finding. It is apparent that the comments were not taken into consideration while preparing the report. So the same comments may be considered as their reply.

6. I have examined the submissions of the Respondent and its Representatives. In this regard, I observe that

- a. With regard to the control and procedure in AML/CFT Policy, the AML Policy provided by the Respondent to the inspection team has been reviewed. In this regard, it is observed that the AML Policy of the Respondent contains the controls and procedures for the purposes of AML Regulations. Therefore, the reply of the Respondent is satisfactory and no action is warranted in this regard.
- b. With regard to the internal audit function, the inspection team primarily contented that the Respondent did not provide the policy, procedure, and implementation of independent audit function. In this regard, it is observed the AML Policy of the Respondent contains the process to conduct the independent audit function. Therefore, no action is warranted.





## Securities and Exchange Commission of Pakistan Securities Market Division

- c. With regard to the compliance with the provisions of Regulation 6(3) of the AML Regulations, the details are as follows:
- Pertaining to the provision of KYC/CDD forms of two accounts, the Respondent failed to submit to the inspection team the requisite information and documents.
  - With regard to the provision of NTN certificates, the Respondent submitted that out of eighteen clients, five clients provided the NTN certificates. This shows that the Respondent primarily misstated on the KYC forms that all of the identified clients have provided the NTN certificates. It is hereby pointed out that the Respondent later on failed to obtain the requisite NTN certificate of thirteen clients.
  - With regard to filling the KYC forms by other clients, the Respondent provided that they do mention the reference details of the person through whom the clients is opening the account. However, the UIN status of these persons were appearing as "client" in the UIN post report. This shows that stance of the Respondent is incorrect and the forms were filled by other clients instead of the employees.
  - With regard to non-availability of source of income of nineteen clients, the Respondent did not provide any comments. This shows that Respondent did not made compliance with the said Regulation.

From the above mentioned circumstances, the Respondent is found noncompliant with the provisions of Regulation 6(3) of the AML Regulations.

- d. With regard to the one high risk client and performance of additional measures thereof, the Respondent viewed that the clients was marked high risk from medium risk and its AML Policy requires further documentation if needed. In the instant matter, the view point of the Respondent is not cogent. Regulation 9 of the AML Regulations requires implementation of appropriate internal risk management system, policies, procedure and control to determine the high risk posed by the customer. Regulation 9 requires to perform the additional measures including but not limited to approval of senior management, determine the appropriate means of fund/wealth and enhance monitoring of business relationship with the customer. In view of aforesaid, the Respondent failed to perform the said measures and found noncompliant with the provisions of Regulation 9 of AML Regulations.
- e. With regard to discrepancy in risk rating assigned in KYC forms and back office records of four clients, the Respondent admitted the said violation and subsequently rectified the ratings in its back office system. This shows that the Respondent was noncompliant with the provisions of Regulation 6(8) of the AML Regulations.
- f. With regard to the justification of its low risk clients, the Respondent provided the said written justification to the inspection team for assigning low risk rating. This shows that the Respondent has complied with the provisions of Regulation 11(2) of the AML Regulations.
- g. With regard to the ongoing monitoring mechanism, the Respondent has not provided any cogent reply. The Respondent has not provided any evidence to have mechanism and procedure along with supporting documents for implementation of ongoing monitoring of its clients.
- h. With regard to failure to report suspicious transactions, the Respondent contended that the highlighted transactions did not qualify as STR. An analysis of the observations of the inspection to some extent corroborates with the claim of the Respondent. Inspection team mainly contented that these accounts did not have any identifiable source of income and





## Securities and Exchange Commission of Pakistan

### Securities Market Division

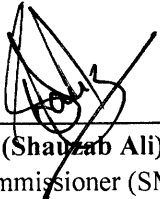
level of investment is beyond the limit specified in KYC form. This observation of the inspection team is primarily the deficiency in the process of customer due diligence and enhance due diligence of its clients. Therefore, the observations of the inspections team in this regard is not tenable and view point of the Respondent appears cogent.

- i. With regard to the training of the employees on AML/CFT, the Respondent arranged the awareness and training session on November 23, 2018. The Respondent is however advised to conduct comprehensive training of its employees so that these employees may get sufficient training to implement the AML Regulations in letter and spirit.

7. In the view of the foregoing and the admission by the Respondent, contravention of the provisions of AML Regulations have been established. Therefore, in term of the power conferred under Section 40A of the Act, a penalty of Rs 200,000/- (Rupees two hundred thousand only) is hereby imposed on the Respondent. The Respondent is advised to enforce the provisions of AML Regulations in letter and spirit. The Respondent is directed to deposit the aforesaid penalty in the account of the Commission being maintained in the designated branches of MCB Bank Limited within 30 days of date this Order and furnish the original deposit challan to this Office.

8. This Order is issued without prejudice to any other action that the Commission may initiate against the Respondent in accordance with the law on the matter subsequently investigated or otherwise brought to the knowledge of the Commission.



  
(Shauzab Ali)  
Commissioner (SMD)

Announced on July 15, 2019  
Islamabad