



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

Through Courier

File No. 1(58) SMD/ADJ/LHR/2018

October 29, 2018

Zafar Securities (Private) Limited,
Through its Chief Executive officer,
Room # 519, 5th Floor,
LSE Building,
Lahore.

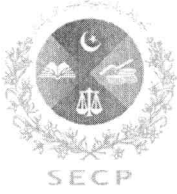
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 10, 2018, BEARING NO. 1(58) SMD/ADJ/LHR/2018

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
Zafar Securities (Private) Limited

<i>Date of Hearing</i>	<i>September 26, 2018</i>
<i>Present at the Hearing</i>	<i>Omar Junaid, Compliance Officer</i> <i>Syeda Khola Hussain, Director</i>
<i>Place of Hearing</i>	<i>Through Video Conference from Regional Office,</i> <i>Lahore</i>

ORDER

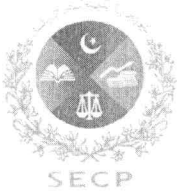
This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(58) SMD/ADJ/LHR/2018 dated September 10, 2018. The SCN was served on Zafar Securities (Private) Limited (“Respondent”) by the Securities and Exchange Commission of Pakistan (“Commission”) under section 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 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 31, 2018 (“Report”) *inter alia* revealed the following:

- (i) It was observed that the KYC/CDD policy provided by the Respondent *prima facie* had not been disseminated to its employees as it failed to furnish evidence of such dissemination as required under the KYC/CDD Guidelines of PSX.
- (ii) It was observed that KYC/CDD/AML policy of the Respondent did not mention the Anti Money Laundering Act, 2010 and Anti Money Laundering Regulations, 2015 as required under the KYC/CDD Guidelines of PSX. The Respondent also admitted the same and intimated that this shall be made part of the policy.
- (iii) It was observed that investment profiling of customer had not been documented as required under the KYC/CDD Guidelines of PSX based on the following;
 - a. Customer’s identity,
 - b. Nature of income,
 - c. Source of funding,
 - d. Location/domicile of customer, etc.

As per details submitted by the Respondent, information and details are missing in respect of following in connection with most of the customers; name or address of business, name of employer, address of employer, designation etc. had not been mentioned. Moreover, details about customers’ nature of investment had not been mentioned. Some of the customers for which information was missing are as follows:





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Name	Client Code
ASMA IMRAN MAQBOOL	8ASMA
AYESHA ANWAR	8AYW
MUHAMMAD AMJAD	4HD
RAZA MOHY UDDIN	4RMD
CH.YAWAR ASAD	CYA
ASLAM AHMED QURESHI	4AMU

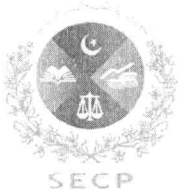
- (iv) Instances were observed where client risk categorization by the Respondent for its customers was not as required under the KYC/CDD Guidelines of PSX. It was noted that Perwaiz Hayat (03277-3198) was a foreigner client but not categorized as 'High Risk' by the Respondent. Moreover, online customers had not been classified as high risk customers as required under the regulatory framework.
- (v) The Respondent did not apply Enhanced Due Diligence (EDD) when dealing with high-risk customers as required under the KYC/CDD Guidelines of PSX. Instances of customers where EDD was required in case of high net worth customers were as follows:

Name	Client Code	Net Trading	Month of Trading
ASMA IMRAN MAQBOOL	8ASMA	5,744,155	July 2017
AYESHA ANWAR	8AYW	6,007,325	July 2017
CH.YAWAR ASAD	CYA	9,673,058	July 2017
ASLAM AHMED QURESHI	4AMU	5,710,267	July 2017

- (vi) While examining the Standardized Account Opening Forms (SAOF) of following customers certain anomalies with regard to KYC /CCD were observed which are stated herein below:

Name	Client Code	Occupation	Observations
ASMA IMRAN MAQBOOL	8ASMA	HOUSE WIFE	1)KYC Check List not filled properly. 2) Source of income is not identified. 3) Risk categorization not done. 4) Detail of nominee is not given. 5) Name of Authorized person is not given.
AYESHA ANWAR	8AYW	HOUSE WIFE	1)KYC Check List not filled properly. 2) Source of income is not identified. 3) Risk categorization not done. 4) Detail of nominee is not given. 5) Name of Authorized person is not given.
MUHAMMAD AMJAD	4HD	OTHERS	1)KYC Check List not filled properly. 2)Details of occupation not provided. 3) Risk categorization not done. 4) Detail of nominee is not given.
RAZA MOHY UDDIN	4RMD	RETIRED PERSON	1) Standardized Account Opening Form (SOAF) is not provided. 2) KYC Form not filled. 3) Risk categorization not done.
CH.YAWAR ASAD	CYA	AGRICULTURIST	1)SOAF is not provided. 2) KYC checklist not filled. 3) Risk categorization not done.
ASLAM AHMED QURESHI	4AMU	STUDENT	1)KYC Check List not filled properly. 2) Source of income is not identified. 3) Risk categorization not done. 4) Detail of nominee is not given.





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(vii) It was noted that the profiles of following customers did not match with their high trading volume during the month of August 2017:

Client Code	Client Name	Occupation	Account Type	Risk Rating by the Respondent	Source of Fund as per Respondent
CYA	CH.YAWAR ASAD	AGRICULTURIST	Individual	LOW	Not Provided
4MEN	MUNEEB AHMAD KHAN	RETIRED PERSON	Individual	LOW	Not Provided
4SJB	SAMAN AJMAL ABBASI	HOUSE WIFE	Individual	LOW	Not Provided
SIL	SILVAT AKHTAR	HOUSE WIFE	Individual	LOW	Not Provided
4TE	TAHIRA EJAZ	HOUSE WIFE	Individual	LOW	Not Provided
8SM	SAQIB MAHMOOD	UNDEFINED	Individual	LOW	Not Provided

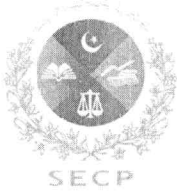
(viii) In order to ascertain that the Respondent had provided trainings to its employees and agents to ensure that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily, the Respondent was required to furnish employee wise details of trainings attended by them during July 01, 2016 to September 30, 2017. While the Respondent provided copies of presentations for training sessions of its employees held in March and September 2016 and April 2017, however it failed to provide related documents and evidence of the same. It therefore appeared that there was a lack of trainings of employees with respect to KYC/CDD on the part of the Respondent as required under the KYC/CDD Guidelines of PSX.

(ix) As per Circular 10 of 2017 issued by the Commission, brokers are required to maintain record of clients having trading above the prescribed threshold. While reviewing the trading data provided by NCCPL for the month of July 2017, it was noted that certain customers of the Respondent had crossed the minimum threshold as defined under the Circular. However, the names of those customers were not included in the list provided by the Respondent for the customers exceeding the threshold. Following are the customers that crossed the minimum threshold and their names were missing in the list:

Name	Net Traded Amount
ASLAM AHMED QURESHI	5,710,267
IFTIKHAR HAMEED	10,821,745
KAMRAN DURRANI	21,960,380
KHURRAM IQBAL	7,673,420
MIAN ABDUL BASIT BASIR	11,186,663
MOHSIN AHMED KHAN	20,650,235
MUHAMMAD FAROOQ	14,683,395
RAI SAROSH TALAT	22,579,475
SYED MALIK	13,310,485
TEHSEEN MUNEEB	30,218,225

(x) In view of absence of customer identification, improper risk assessment and categorization of clients, absence of enhanced due diligence, absence of ongoing due diligence and absence of proper training, it appeared that the Respondent did not have





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adequate checks and controls to monitor and remain alert regarding suspicious transactions.

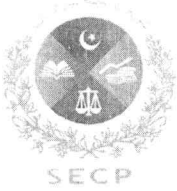
3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of regulation 16(1)(k) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations and the Know Your Customer & Customer Due Diligence Guidelines 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 17, 2018. Hearing in the matter was rescheduled and held on September 26, 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/CCD Policy was approved by the Board of Directors in a meeting held on 1st March 2016 and was given to all the employees/agents via emails. Further, the branch managers and all the employees of the company were given detailed presentations by Director and the compliance officer of the company. These presentations sessions were conducted in March'16, Sep'16, April'17 and Sep'18. A handout of the presentation is furnished.*
- (ii) *AML Act 2010 and AML Regulations 2015 are now incorporated in our policy.*
- (iii) *KYC/CDD is part of our policy since 2016 and is an ongoing process. We have requested the missing information from our clients whose accounts were opened before implementation of KYC/CDD policy. The clients who have been highlighted are all old clients and most have updated their KYC and provide us with the missing information. Further as and when the clients update their information we also update it in our back office. We have now implemented a very strict account opening policy and unless KYC/CDD is not fully available our compliance officer is not fully satisfied; the account is not opened. All the relevant fields are available in our KYC/CDD form.*
- (iv) *As per our record Perwaiz Hayat is not a foreign Citizen but a Pakistani citizen with a NICOP. However, as per our current understanding of KYC policy, we have categorized all our NICOP holders and online customers as hi&-risk.*
- (v) *EDD is an ongoing process. At the time of thematic review of Compliance, we did not have proper reporting mechanism which could identify high net worth trading. All these clients are old and regular clients and have been trading with us for a very long time and never defaulted on any of payments. Now with proper reporting procedures and SOPs we regularly update the High-Risk category.*
- (vi) *KYC/CDD is part of our policy since 2016 and is an ongoing process. We have requested the missing information from our clients whose accounts were opened before implementation of KYC/CDD policy. The clients who have been highlighted are all old clients and most have updated their KYC and provide us with the missing information. Further as and when the clients update their information we also update it in our back office. We have now implemented a very strict account opening policy*





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SECP

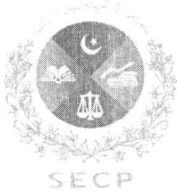
- and unless KYC/CDD is not fully available our compliance officer is not fully satisfied; the account is not opened.*
- (vii) *EDD is an ongoing process. At the time of thematic review of Compliance, we did not have proper reporting mechanism which could identify high net worth trading. All these clients are old and regular clients and have been trading with us for a very long time and never defaulted on any of payments. Now with proper reporting procedures and SOPs, we regularly update the High-Risk category.*
- (viii) *KYC/CDD Policy was approved by the Board of Directors in a meeting held on 1st March 2016 and was given to all the employees/agents via emails. Further, the branch managers and all the employees of the company were given detailed presentations by Director and the compliance officer of the company. A record of their attendance and video proof can be provided.*
- (ix) *At the time of thematic review of Compliance, we did not have proper reporting mechanism which could identify high net worth trading.*
- (x) *At the time of the thematic review of Compliance status of Regulatory Requirements related to Anti Money Laundering AML, Know Your Customer KYC and Customer Due Diligence CDD was carried out by SECP (Sep 12, 2017), the KYC/CDD were relatively new adoption by our company. We were in the process of updating our software requirements and training of the relevant personnel, so as to properly manage and implement these policies. We conducted several training sessions with our employees and our software developers, the said policies are now being effectively implemented. We are cognizant of the international pressures regarding FATF on terrorist financing and money laundering and are willing to take all possible measures so that Pakistan can safely achieve its goals. In this regard, we will be grateful if SECP helps us in further understanding these policies and relevant training of our staff.*
- (xi) *In light of the above explanations, we hope that SECP will take a lenient view regarding the show cause notice and will not take any disciplinary action.*

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 most non-compliances in its response and during the course of the hearing, which have either 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.





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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 and was of the view that it is in the learning process. 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 and the Respondent has either rectified or is in the process of rectification of non-compliances, 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.

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.


(Shaukat Hussain)
Commissioner



Announced on October 29, 2018
Islamabad.