



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

Through Courier

File No. 1(39) SMD/ADJ/ISB/2018

October 29, 2018

Zahid Latif Khan Securities (Private) Limited,
Through its Chief Executive officer,
412, 4th Floor, ISE Tower,
55-B, Jinnah Avenue Blue Area,
Islamabad.

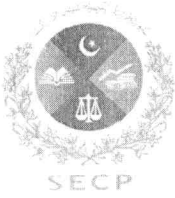
Subject: ORDER IN RESPECT OF SHOW CAUSE NOTICE DATED SEPTEMBER 3, 2018, BEARING NO. 1(39) SMD/ADJ/ISB/2018

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
Zahid Latif Khan Securities (Private) Limited

<i>Date of Hearing</i>	<i>September 27, 2018</i>
<i>Present at the Hearing</i>	<i>Zahid Latif Khan, CEO</i> <i>Ajmal Sultan, Director</i>
<i>Place of Hearing</i>	<i>In person at the SECP, NICL Building, Jinnah Avenue,</i> <i>Blue Area, Islamabad</i>

ORDER

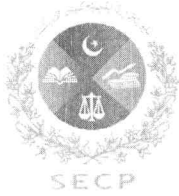
This Order shall dispose of the proceedings initiated through Show Cause Notice (SCN) bearing No. 1(39) SMD/ADJ/ISB/2018 dated September 03, 2018. The SCN was served on Zahid Latif Khan Securities (Private) Limited (“**Respondent**”) by the Securities and Exchange Commission of Pakistan (“**Commission**”) 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 07, 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 July 03, 2018 (“**Report**”) *inter alia* revealed the following:

- (i) It was observed that CTR as required under the KYC/CDD Guidelines of PSX read with the Anti Money Laundering Regulations, 2015 had not been specifically covered in KYC/CDD policy of the Respondent. Furthermore, matters specified in clauses 3.2 to 3.6 of the KYC/CDD Guidelines of PSX had also not been specifically covered in AML policy of the Respondent. This was accepted by the Respondent and accordingly rectified.
- (ii) Customer information provided by the Respondent did not contain information regarding source of funds and nature of income as follows contrary to requirements of the KYC/CDD Guidelines of PSX:

Amount deposited	Client Name	Observation
Rs.7,000,000	Tanvir Aftab	Cheque deposited on July 3, 2017. Copy of cheque provided but source of funds not provided.
Rs.1,000,000	Ghulam Mustafa	Cash deposited on July 27, 2017. Documentary evidence of funds is dated October 21, 2015 whereas funds were deposited with the Respondent on July 27, 2017





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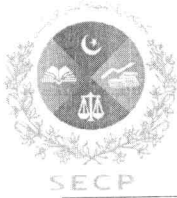
(iii) The Respondent had not maintained risk categorization of its following customers in accordance with KYC/CDD Guidelines of PSX. Absence of risk categorization also indicated that the Respondent had not performed Enhanced Due Diligence (EDD) for its high-risk customers as required under KYC/CDD Guidelines of PSX and no documentary evidence for the same was furnished by the Respondent:

Code	Client Name	Observation
8003571	Muhammad Naveed Akhter	Risk Categorization has not been marked on KYC form as submitted with Account Opening Form maintained by the Respondent
8003627	Ghulam Mustafa	a). As per visiting card submitted with the account opening form, Mr. Ghulam Mustafa is the Managing Director of Al-Mustafa Chain Centre b). Nature of business has not been mentioned in CDC sub account opening form c). In KYC form the risk has been categorized as "Low". However, the guideline requires to classify cash based business as high risk d). The account was opened on July 27, 2017 and client has deposited Rs.1,000,000 cash with the Respondent Thus, enhanced due diligence was not performed
8003571	Muhammad Naveed Akhtar	a). Risk Categorization has not been marked on KYC form with Account Opening Form maintained by the Respondent b). As per his ledger account during the period from July to August 2017 total Rs32 million has been deposited by the client. c) As per visiting card submitted with the account opening form, Mr. Naveed Akhter is the Accounting Manager at OMV Pakistan Exploration and Production Thus, the amount of funds invested does not match his profile. Hence, enhanced due diligence was not performed
8003611	Tanvir Aftab	a). Risk Categorization has not marked on KYC form with Account Opening Form maintained by the Respondent b). As per his ledger account on July 3, 2017 an amount of Rs.7 million has been deposited by the client. c) As per visiting card submitted with the account opening form, Mr. Tanvir Aftab is the Chairman of Kant TSP LLC, and its address is appearing as East Industrail Area, Kant, Kyrgyzstan d). In his ledger account cheque number is not mentioned in respect amount invested by the client. Further, Copy of cheque was not provided e). In CDC setup report the client is appearing as "resident Pakistani". f). Copy of NICOP not obtained Thus, enhanced due diligence was not performed

(iv) Lack of documentation was observed for the following High Risk customer of the Respondent for performing Enhanced Due Diligence, as required under the KYC/CDD Guidelines of PSX, as follows:

Code	Client Name	Risk Categorization as per Respondent	Remarks
5000003	Beckly Consulting (Private) Limited	High	With the Account Opening form the Respondent has submitted copy of a balance sheet of the client as of June 30, 2016 showing only two items cash and share capital balance of Rs.100,000 each. In this regard, it may be noted that as per UIN report the account was opened on October 2016 but updated balance sheet of subsequent period not obtained. Thus,





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			enhanced due diligence was not carried out.
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- (v) The profiles of following customers of the Respondent did not match with their high trading volume during the month of July 2017. The was also accepted by the Respondent and accordingly rectified:

Client code with CDC Sub Account Number	CLIENT NAME	Nature of occupation	Net Value of Trading (PKR million) during July 2017	Remarks
5000008 119376	Muhammad Adnan Sharif	Service	13.36	a). As per CDC account opening form name of his employer is SPUD Energy, Islamabad b). Details of job title or designation has not been mentioned c) Copy of Employment certificate not attached d)An amount of Rs.5 million received on July 7, 2017 Thus, in view of the above, it appears that due diligence was not carried out.
6000262 95410	Nazir Ahmed	Retired person	7.37	The trading pattern, does not matched with client profile

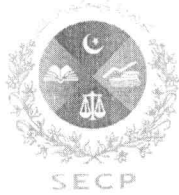
- (vi) The KYC/CDD Guidelines of PSX require brokers to conduct on-going training of their employees and agents to ensure that they understand their duties under KYC/ CDD and are able to perform the duties satisfactorily. The Respondent had submitted that during the period from July 2016 to September 2017 no such training was arranged.

- (vii) While comparing the records maintained by the Respondent in relation with Circular 10 of 2017 issued by the Commission, with data obtained from NCCPL for all markets for the month of July 2017, it was observed that the following were not included in the records maintained by the Respondent, contrary to requirement of the said Circular. The Respondent also accepted the same and noted for future compliance:

UIN	UIN NAME	UIN CLASS	Net Value of Trading (Amount in Pak Rupees)
3530218998099	Muhammad Adnan Sharif	Individual	13,361,999.00
6110145049703	Muhammad Naveed Akhtar	Individual	12,968,176.40
3740502210193	Muhammad Yasir	Individual	11,269,242.00
1310108220003	Afzal Pasha	Individual	7,701,356.00
3740506645625	Nazir Ahmed	Individual	7,367,305.00

- (viii) In view of absence of customer identification, absence of risk assessment and categorization of clients, absence of enhanced due diligence, lack of ongoing due diligence and lack of proper training, it appeared that the Respondent did not have adequate checks and controls to monitor and remain alert regarding suspicious transactions.





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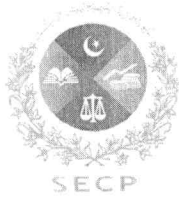
3. It appeared from the foregoing that the Respondent *prima facie* acted in violation of section 74(b) of the Securities Act, regulations 16(1)(k), 16(1)(o) and 16(8) of the Brokers Regulations, Circular No. 10 of 2017 dated April 21, 2017 issued by the Commission, regulation 4.17 of the PSX Regulations 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 18, 2018. The Respondent filed written reply to the SCN vide letter of September 25, 2018. Hearing in the matter was 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) *KYC/CDD policy of the Respondent was rectified to include CTR after it was identified during the inspection.*
- (ii) *Source of fund for Mr. Tanvir Aftab, i.e. currency conversion, and Wealth Statement of Mr. Ghulam Mustafa was furnished.*
- (iii) *In relation to lack of risk categorization*
 - a. *Muhammad Naveed Akhter: Risk categorization has been marked*
 - b. *Ghulam Mustafa: Risk categorization has been marked as High. Wealth Statement of Mr. Ghulam Mustafa is furnished. Nature of business has also been mentioned in CDC sub account opening form. Further enhanced due diligence was performed that is why he was marked high risk.*
 - c. *Muhammad Naveed Akhter: Risk categorization has been marked. This client was opened his account with us on 11/05/2017, previously he was doing trade with other brokerage house from where during the year 2016-2017 his capital gain was Rs.39 million. Copy of his Capital Gain Certificate, annual return and Wealth Statement for the year 2016-2017 is also furnished for your kind information. These figures of capital with gain clearly indicates his profile.*
 - d. *Tanvir Aftab: Risk categorization has been marked. We have mentioned the cheque number in his ledger, copy of cheque already provided to you as you have mentioned in point # 4(ii). Further NICOP is not mandatory requirement for all non-resident to obtain and client accordingly informed that he did not obtain.*
- (iv) *With reference to EDD of Beckly Consulting, enhanced due diligence was carried out raising all points at the time of opening of account. We are however in process of closing this account and also suspended his further trading activities. During course of the hearing, the Respondent accepted that EDD was not performed for Beckly Consulting.*
- (v) *In relation to profiles of customer not matching their high trading volume*
 - a. *Muhammad Adnan Sharif: We have mentioned his Detail of job title and designation in CDC account opening form. Employment certificate obtained. During the month of July 2018 his net trading value of PKR 13.36M is also included PKR 12.47M of Future trading and the remaining amount is Regular trade. We allowed our clients to trade in future on 30% margin on the basis of*





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- PSX regulations. Further his deposited amount was excess than 30% margin amount. This clearly exhibit that due diligence was carried out. Respondent during course of hearing accepted that the employment certificate of the client had been obtained after it was highlighted by the inspection team.*
- b. Nazir Ahmed: During the month of July 2018 his net trading value of PKR 7.37M is also included PKR 5.72M of Future trading and the remaining amount is Regular trade. We allowed our clients to trade in future on the basis of 30% margin as per PSX regulations. Pertinent to mentioned that his credit balance and securities amount with us was excess than 30% margin amount.*
- (vi) An on-going training of our employees and agent was conducted on October 21, 2017 at our Rawalpindi Cantt Branch. Further, day to day briefing to all senior staff of company on monthly basis is also of our policy.*
- (vii) In relation to Circular 10, we have done the compliance statues regarding EDD of these clients and found that there is no suspicious transaction in it. Further we have already updated our software since it was not taking into account futures transactions.*
- (viii) Respondent stated that issues were arising mostly due to awareness regarding the laws.*

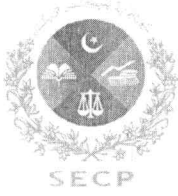
6. I have heard the arguments presented by Representative of the Respondent during the hearing. Additionally, I have perused the available record, existing regulatory framework and written response filed by the Respondent. The primary allegation against the Respondent is that it acted in non-compliance 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 admitted that it had rectified its KYC/CDD policy to include requirement of CTR after it was identified during its inspection;
- (ii) while the source of funds for Mr. Tanvir Aftab has been furnished as currency conversion, however no source of such currency has been furnished, which is required to be determined under the KYC/CDD Guidelines of PSX. Further, for both customers, Mr. Aftab and Mr. Ghulam Mustafa, the nature of income has not been furnished by the Respondent. This shows that customer information as required under the KYC/CDD Guidelines of PSX was not being maintained by the Respondent;
- (iii) it was noted that the KYC/CDD Checklists furnished by the Respondent to the inspection team and in response to the SCN were different, i.e. risk categorizations were marked in the forms submitted in response to the SCN while no such markings were on the forms submitted to the inspection team. During the course of the hearing it was also noted that the Respondent did not have sufficient knowledge how to perform EDD. The Respondent has now categorized Ghulam Mustafa as High Risk;
- (iv) in relation to Beckly Consulting, the Respondent admitted that it had not obtained updated balance sheet for the year 2017 and had also not performed EDD; and
- (v) Respondent admitted that information relating to Muhammad Adnan Sharif was obtained after it was highlighted by the inspection team.

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





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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.

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.