



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
Adjudication Department

No. 1(40) SMD/ADJ/ISE/2019

June 10, 2019

**Zahid Latif Khan Securities (Pvt.) Limited**  
Through Chief Executive Officer  
412, 4<sup>th</sup> Floor, ISE Towers,  
55-B, Jinnah Avenue,  
**Islamabad**

**SUBJECT: Order in respect of Show Cause Notice No. 1(40) SMD/ADJ/ISE/2019, dated May 02, 2019**

Please find enclosed herewith a copy of Order dated June 10, 2019 in the title matter for your record and necessary action.

  
\_\_\_\_\_  
**Muhammad Akram Farooka**  
Assistant Director



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

Through Courier

Before the Commissioner (SMD)

In the matter of Show Cause Notice issued to Zahid Latif Khan Securities (Pvt.) Limited

Date of Hearing	May 13, 2019
Present at the Hearing	i. Mr. Zahid Latif Khan (Chief Executive Officer)
Representing Zahid Latif Khan Securities (Pvt.) Limited	ii. Mr. Muhammad Zubair (Accountant)

**ORDER**

This Order shall dispose of the proceedings initiated against the Zahid Latif Khan Securities (Pvt.) Limited (the "Respondent") through Show Cause Notice No. 1(40) SMD/ADJ/ISE/2019, dated May 02, 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 vide Order dated October 29, 2018, in exercise of the powers conferred under section 137 of the Securities Act, conducted wherein a follow-up 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 24, 2019 ("Review Report") subsequent to sharing of letter of findings dated April 01, 2019 and analysis of reply dated April 11, 2019.

3. The Review Report reveals that the Respondent was *prima facie* found non-compliant with the AML Regulations; detailed as under:

- a. No evidence on procedures and controls in place for the quantification of risk tolerance or its description in AML/KYC policy.
- b. There was mismatch in the number of high risks clients as reported by the Auditor as compared to the working submitted to the team. Further, there was no Enhanced measures in place to effectively manage the higher risks.
- c. The Respondent's policy did not include requirements of Regulation 13(6) & (7) of the AML Regulations.
- d. Business relationship was established with 3 clients categorized as High Risk wherein appropriate clients profile were not maintained by the Respondent therefore, *prima facie* in violation of the AML Regulations.
- e. Risk profiles maintained by the Respondent are inadequate in certain cases to address monitoring of accounts/ transactions on ongoing basis. Further, fifteen sample clients were





## Securities and Exchange Commission of Pakistan Securities Market Division

observed wherein certain information was missing such as income level, nature of employment or business, type of revenue, designations, source of funds (own/loan/CIS), expected level of investment

- f. The Respondent did not share any annual plan, duly approved by its Board of Directors, for training program of employees with regard to AML/CFT.
- g. The Respondent used settlement value, instead of traded value has been used for calculation of net buy against the net traded amount (i.e. value bought – value sold) The Respondent's methodology is not in line with the requirements of the circular. Further the compliance of the circular does not match with the data obtained from NCCPL for the month of November and December, 2018 and January, 2019.

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 02, 2019 to the Respondent. The Respondent vide its letter dated May 13, 2019 submitted reply to the SCN which is reproduced below:

- a. *"Our backoffice software system is already running according to the Regulation 3 of the AML Regulation since its implementation. We have risk assessment levels according to PSX regulations. (30% margin in DFC and 100% in REG). Client profiles are maintained and Risk disclosure form signed by client are kept in record for more assistance. Currently we are not offering MTS & MFS for clients. However, the point of above said Regulation is added to our company's AML policy.*
- b. *Out of 179 high risk clients we only marked 17 clients for follow-up because these 17 clients included PEP and the ones who deposited large amounts. Remaining clients were marked as high risk on the basis of NICOP (not risk based). We did not mark them for follow-up because their transaction volume were within their level of income. Our back office Software has capability to point out automatically the clients who make transaction in excess of their income or may make suspicious transactions, in that scenario CDD will automatically trigger.*
- c. *Our AML/KYC policy has already been approved by the Board of Directors (BOD) and the same has been circulated to employees, our back office system is already running according to the Regulation since the implementation of Regulations 4(a) (b) & (c) and 13(6)(7) of the AML Regulation. Above said Regulations has already been incorporated, in our policy. Regulation 13(6) is deleted as per SRO and addition of (5a) is made in replacement.*
- d. *CDD was conducted and the record was maintained in hardcopy. Later on we also incorporated in software.*
- e. *Our software is compatible to monitor these accounts regularly by generating "risk analysis" report. The CDD was conducted and the record was maintained in hardcopy. Subsequently while conducting ongoing monitoring we have updated in software. We are doing employee training program on annual basis Last training program was conducted on 28-12-2018 Evidence of last annual program (awareness session) is submitted.*





# Securities and Exchange Commission of Pakistan

## Securities Market Division

g. *We calculate net Trading value on settlement basis and DEC Contract are calculated on its Final Settlement date. We have checked that all these clients are falling under circular 10 on the basis of which we have changed their risk category from low to high. Evidence is also attached for your kind information. However the method of calculation has now been changed to traded value. Later on circular 10 was repealed.”*

5. The Respondent was accorded hearing opportunity on May 13, 2019. Mr. Zahid Latif & Mr. Muhammad Zubair attended the hearing as Authorized Representative on behalf of the Respondent. During the course of hearing proceedings, the Authorized Representative reiterated the argument as submitted in response to the SCN.

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

- a. With regard procedure and control for quantification of risk tolerance, the Respondent during the hearing submitted that its system already caters for the risk assessment/tolerance of the clients. The Respondent maintains the clients' profile and risk disclosure documents, which implies that procedures and controls are in place for risk quantification. The Respondent submitted the revised policy along with the reply to the SCN, which contains the requirement of Regulation 3 of the AML Regulations.
- b. With reference to the mismatch in number of high risk clients, the Respondent in its reply submitted that 179 clients were categorized as high risk on basis of NICOP and out of these 17 clients were marked for follow up being politically exposed persons (“PEP”). The Respondent submitted that it carries out follow up of these clients. The Respondent during the hearing proceedings reiterated that its system automatically triggers alert when client transaction does not match with their profile. The Respondent emphasized that its system caters for any such transaction for effective due diligence in case of high risk clients. The Respondent submitted the risk profile of its clients which duly contain the risk assessment required for follow up of the clients. The reply of the Respondent appears cogent.
- c. With regard to the requirement of Regulation 13(7) of the AML Regulation, the Respondent along in its reply submitted copy of the AML policy which duly contain the requirement of Regulation 13(7) of the AML Regulation. Therefore the reply of the Respondent is satisfactory.
- d. With regard to the CDD of clients, the Respondent submitted that CDD of the said clients was already conducted and record was duly maintained in hardcopy. Respondent during the hearing proceedings submitted that its system also maintains the customer CDD profiles. The Respondent provided copies of system generated Customer Due Diligence Reports of the said clients which incorporates the missing elements as highlighted by the inspection team such as annual income, amounts deposits, amount withdrawals. Review of the said reports reveal that the Respondent maintains comprehensive profile of all its clients as per the requirements of Regulation 6 of the AML Regulations. The reply of the Respondent is satisfactory.
- e. The Respondent submitted that its software is capable to generate the risk analysis reports for ongoing monitoring of its client. The Respondent in this regard submitted the profiles of the sample clients which contains sufficient information such as income level, name of






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

- employer, risk category, amount withdrawals, amount deposits, trading activity, pledge positions etc. to be used for on-going monitoring of its client. The reply of the response in this regard appears cogent.
- f. With regard to the training program of the employees, the Respondent submitted the evidence of last training program conducted on December 28, 2018.
- g. With regard to the compliance with the provisions of Circular 10 of 2017, the Commission vide its Circular No. 6 of 2019 repealed the said circular, therefore no action is warranted.
7. I have gone through the fact of the case, written response and the submissions made during the hearing proceedings. In the view of the aforesaid, I hereby close the proceeding without any adverse action.
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 June 10, 2019  
Islamabad