

Before Amir M. Khan Afridi, Director/HOD (Adjudication-I)

In the matter of Show Cause Notice issued to Rafi Securities (Pvt.) Limited

Dates of Hearing

April 26, 2021

Order-Redacted Version

Order dated May 17, 2021 was passed by Director/Head of Department (Adjudication-I) in the matter of Rafi Securities (Pvt.) Limited. Relevant details are given as hereunder:

Nature	Details
1. Date of Action	Show cause notice dated February 16, 2021.
2. Name of Respondent	Rafi Securities (Pvt.) Limited (the Respondent)
3. Nature of Offence	<u>Alleged contraventions of regulation 3(1), 13(7) and 6(4), 6(3)(a), 7(1)(a), (b), (c) and Annexure I of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the AML Regulations) read with Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the Act).</u>
4. Action Taken	<p>Key findings were reported in the following manner:</p> <p>I have considered the written and oral submissions of the Respondent and observed that:</p> <ol style="list-style-type: none">i. with regard to risk categorization of clients, their authorized persons and BoDs who belong to high-risk jurisdiction areas, the Respondent during the hearing submitted that it had accepted the observation of the Inspection Team and has accordingly updated the risk categorization. This means that the Respondent has rectified the default subsequent to the Inspection.ii. with regard to the maintenance of database of beneficial owners, the Respondent during the hearing submitted that it had already informed that Inspection Team that database of the beneficial owners of the clients was maintained and shared evidence of the same. The Respondent submitted sample screenshots of its in-house software wherein details of beneficial owners are showing against the respective clients.

	<p>Further, the Respondent also shared evidence of screening performed for its clients in the prescribed manner. The reply of the Respondent in this regard is tenable. Further, no counter arguments have been provided by the Inspection Team against the evidence of the database provided by the Respondent. Therefore, the Respondent may not be held accountable in the instant matter.²</p> <p>iii. with regard to the deficiencies in its AML/CFT policy, the Respondent during the hearing submitted that it has updated its AML/CFT policy subsequent to the Inspection. Further, the Respondent has also incorporated a formal reporting line of its compliance office. Since, the Respondents policy was deficient at the time of Inspection and a formal reporting line was not established for the Compliance Officer till the Inspection, therefore, the Respondent was found in contravention of regulations 4(a), 18(a) and 18(c) of the AML Regulations.</p> <p>iv. with regard to the NADRA Verisys of its clients, their nominees, authorized persons and directors, the Respondent provided that access to NADRA Verisys was not available at the time of Inspection. Therefore, the Respondent was found in contravention of regulation 6(4) read with Annexure I (Note I) of the AML Regulations. Further, with regard to the CNIC's copy of 1 of its clients' nominee, the Respondent had provided the same to the Inspection Team and the Inspection Team had not highlighted any further observations based on the evidence provided by the Respondent. Therefore, the Respondents' submission with regard to the CNIC copy of I client's nominee is tenable and hence no violation of regulation 6(3)(a) of the AML Regulations is established in the instant matter.</p> <p>v. with regard to the deficiencies in KYC/CDD and EDD of the clients, instant wise details are provided as under:</p> <p>a. In the first instance, it was observed that the Respondent had not provided evidence of income of the client and KYC Forms of joint account holders during the Inspection as the same was not obtained from the client. The Respondent has subsequently obtained the said documents and submitted through reply to the SCN.</p> <p>b. In the second instance, the Respondent has updated the occupational details in CDC and NCCPL subsequent to the Inspection and provided salary slip of the client.</p> <p>c. In the third instance, the Respondent has obtained KYC Form of the beneficial owner and also shared evidence of source of</p>
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	<p>income / funds of the client's beneficial owner subsequent to the Inspection through response to the SCN.</p> <p>d. In the fourth instance, the Respondent has obtained KYC Form of the beneficial owner subsequent to the review.</p> <p>In view of the aforesaid, it has been observed that the deficiencies observed in KYC/CDD of the clients were rectified subsequent to the observation highlighted by the Inspection Team. Since, the documents / evidences of the aforesaid clients were not provided at the time Inspection, therefore, the Respondent was found in contravention of regulation 6(3)(a), 6(5), 6(3)(c) and 9(4) of the AML Regulations.</p> <p>vi. with regard to the deficiencies observed in KYC/CDD documents of its corporate clients as per requirements of the AML Regulations, the Respondent has submitted evidence substantiating rectification of the identified defaults subsequent to the inspection. The Respondent was thus, found in contravention of regulation 6(4) read with Annexure I and regulation 7(I)(a)(b) and (c) of the AML Regulations</p> <p>Therefore, in terms of powers conferred under Section 40A of the Act, a penalty of Rs. 500,000/- (Rupees Five Hundred Thousand Only) is hereby imposed on the Respondent. 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.</p>
5. Penalty Imposed	Rs. 500,000/-
6. Current Status of Order	Penalty not deposited and Appeal has been filed by the respondents.