



SECURITIES & EXCHANGE COMMISSION OF PAKISTAN  
Securities Market Division  
Adjudication Department

No. 1(155) SMD/ADJ/KHI/2019

June 10, 2019

**Trust Securities & Brokerage Limited**  
Through its Chief Executive Officer  
Suit No. 401-402, 4<sup>th</sup> Floor  
Business & Finance Center,  
i.I. Chundrigarh Road,  
Karachi.

**SUBJECT: Order in respect of Show Cause Notice No. 1(155) SMD/ADJ/KHI/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

OR6



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

Through Courier

**Before the Commissioner (SMD)**

**In the matter of Show Cause Notice issued to Trust Securities & Brokerage Limited**

Date of Hearing	May 09, 2019
Present at the Hearing	i. Mr. Khizer Hayat Farooq (Director),
Representing Trust Securities & Brokerage Limited	ii. Mr. Khurram Faraz (Chief Executive Officer)
	iii. Muhammad Umair (Advisor)

**ORDER**

This Order shall dispose of the proceedings initiated against the Trust Securities & Brokerage Limited (the "Respondent") through Show Cause Notice No. 1(155) SMD/ADJ/KHI/2019, dated May 02, 2019 (the "SCN") under Section 40A of the Securities and Exchange Commission of Pakistan Act 1997 (the "Act") and Section 150 of the Securities Act 2015.

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"). Thematic review of the Respondent was conducted under supervision and direction of Oversight Committee constituted by Commission under Section 169 of Securities Act, 2015 (the "Act") to ascertain compliance with requirements contained in Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("AML Regulations"). The report was submitted on April 4, 2019 (the "Report") after receiving comments of the Respondent on the letter of finding dated March 19, 2019.

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

- a. The AML/KYC policy of the Respondent was not approved by its board of directors. Moreover, the policy was not updated to meet the requirements of the AML Regulations.
- b. The Respondent did not have a mechanism for ongoing monitoring of its clients.
- c. The Respondent had not conducted Enhanced Due Diligence ("EDD") of eleven of its customers that were categorized as high risk.
- d. The Respondent had not performed NADRA verisys of its clients.
- e. The risk ratings assigned to clients of customers in back office differed from those assigned in the KYC/CDD form reflecting that the Respondent had not documented the change. Further, the Respondent had assigned incorrect risk ratings to its clients.
- f. The Respondent had not established beneficial ownership of eight of its clients whose profile did not match with their trading.





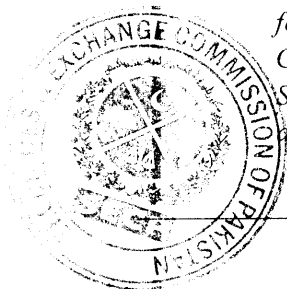
## Securities and Exchange Commission of Pakistan

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- g. The Respondent had not established an independent audit function.
- h. The Report highlighted 14 instances that should be reported by the Respondent under STR. However, the Respondent did not report any transaction under STR during the period. It is also noted that the Respondent has not documented the basis of deciding whether STR should be filed or not.
- i. The Respondent, in contravention of Regulation 16 of Securities Brokers (Licensing and Operations) Regulations, 2016 had opened trading account of:
  - Son of chief executive of another brokerage house;
  - Employee of another brokerage house despite that this fact was disclosed in the KYC form;
  - Another brokerage house.

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 and issued SCN dated May 02, 2019 to the Respondent. The Respondent vide its letter dated May 09, 2019 and May 10, 2019 submitted reply to the SCN, which is reproduced below:

- i. *“The AML/CFT policy of the Brokerage House was approved by its Board of Directors and the approval was provided to the team member of JIT along with the copy of AML/CFT Policy. As per our comments against JIT findings we were in the early stages to formulate the AML/CFT Policy and procedures and submitted the policy at that time to meet the requirements of the Exchange and Commission. Now we have updated the policy as per SECP Regulation, 2018 and guidelines after incorporating the requirements as indicated by JIT in Thematic Review and also obtained Board's approval.*
- ii. *The Company has a mechanism of ongoing monitoring of its clients. The Company performs quarterly ongoing monitoring /risk assessment /monitoring of transactions of clients to ensure that the transactions are consistent on the basis of clients available information their business risk profile and source of funds.*
- iii. *We already obtain maximum information by our clients who are highlighted as high risk of ML/TF regarding source of income/funds, information regarding beneficial owner /politically exposed persons before opening of account which fulfils our requirement regarding ML/TF risks. However, we acquire additional documents i.e. asset declaration etc. by the clients in this connection we have developed a format to perform EDD of high risk customers to fulfil regulatory requirements.*
- iv. *As we have mentioned in our comments, we only accept attested copies of CNIC of the customers and after the verification of customer's signature & CNIC Number by the relevant Bank (having Seal & signature of Bank's representative on the account opening form at the time of verifying Bank Account/IBAN). Further, we also verify the customers CNIC Number and their details on FBR website while checking customer's Tax Filing Status before opening of any account. The Brokerage house also does not opens any account without reference. Meanwhile we have forwarded/ made a request to the concerned*

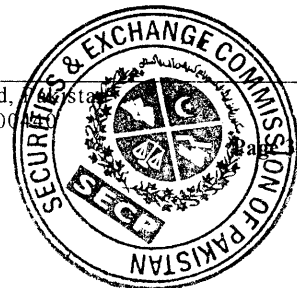




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authority for procurement of NADRA verisys system for the verification of CNIC to meet regulatory requirement in this matter.

- v. *The risk rating assigned to customers initially at the time of opening of account after having AML/CFT risk assessment of the customer on the basis of "RBA" (Risk Based Approach). The regulation requires us to categorize customers after having risk assessment in Low, Medium and High AML/CFT risks. However, status in back office updated/changed after ongoing monitoring/due diligence of the customer i.e. customer transactions and cash in/out flows. Currently we have developed a format to document such updation/changes/risk assessment after performing ongoing monitoring/customer due diligence.*
- vi. *We had not established beneficial owners of the highlighted customers as the customers/account holders are themselves beneficial owners of their account. At the time of opening of account we specifically asked these customers about the beneficial owners of their account and marked them all as the beneficial owners of their account in Section-B of KYC/CDD check list available in account opening form. Further, we have developed a KYC/ Customer Due Diligence Form in which we acquire all customer related information including Beneficial Owner and PEP.*
- vii. *The Company has an internal audit department functioning independently making all due efforts to implement AML/CFT regulation under guidelines of the Exchange and Commission in the brokerage house. As the AML/CFT regulations introduced recently we are striving fully to implement the same in the brokerage house.*
- viii. *As per our comments on non-reporting of STR of customers in this connection we would like mention here that, we had evaluated customer information and put an enquiry against such transactions made by customers (as highlighted in JIT findings) on various pieces of their information and consider their activity. We had asked appropriate questions to these customers in order to obtain explanation of the reason for conducting the transactions bearing suspicious activity. On satisfactory explanation of the transaction by these customers the same were not considered as suspicious related to ML/TF risks and due to which they have not been reported.*
- ix. *Our comments regarding the findings are:*
  - *Upon intimation the account of the Son of CEO of another brokerage house has been closed immediately after receiving closing request and settlement of position (evidence is attached regarding UIN/CDC sub account closing Annexure-10).*
  - *The Account of Mr. Muhammad Amin was not opened on the basis of service/or employee of another brokerage house. His account was opened on the occupation basis as "other". The NCCPL system does not allows opening any account of employee of other brokerage house. In this connection we have submitted our reply and explain in detail to PSX vide our letter reference Number TSBL/Thematic Review/2019/121,*





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*Dated: April 04, 2019 (copy attached Annexure-11) regarding opening of the said account.*

- *We would like to inform you that we have not opened another brokerage house account in our brokerage house”.*

5. The Respondent was accorded hearing opportunity on May 09, 2019. Mr. Khizer Hayat Farooq (Director), Mr. Khurram Faraz (Chief Executive Officer) Muhammad Umair (Advisor), Muhammad Ashraf (Compliance Officer), Authorized Representatives attended the hearing on behalf of the Respondent. During the hearing proceedings, the Authorized Representative reiterated the argument as submitted in response to the SCN.

6. At the outset I would like to mention here that although the AML Regulations were issued in 2018 but the requirement contained therein are not new. These AML requirement were introduced in 2012 when Karachi Stock Exchange Limited (presently PSX) with the approval of the Commission through Regulation 4.18 of the Rule Book, made it mandatory for the securities broker to formulate and implement an effective KYC and CDD policy in accordance with the Know Your Customer and Customer Due Diligence Guidelines issued by the Exchange. A comparison of the regulatory framework of 2012 with AML Regulations does not reflect any material difference in term of the requirements.

7. I have examined the submission of the Respondent and its Representatives. In this regard, I observed that:

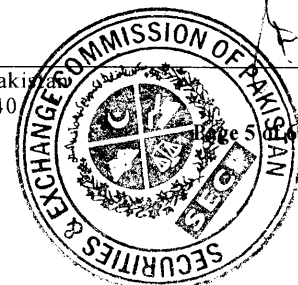
- a. With regard to the non-approval and not updating AML/CFT policy, the Respondent in its reply admitted that the policy was not updated at the time of inspection. The Respondent subsequent to the inspection updated its policy on April 26, 2019. This reveals that the Respondent was in violation of Regulation 4(a) of the AML Regulations.
- b. The Respondent submitted that it performs the ongoing monitoring/risk assessment of its clients on quarterly basis and provided the excel sheet covering the period October 01, 2018 to March 20, 2019. This reply of the Respondent does not appear convincing. Firstly, the excel sheet merely contains the client trading & other data for six month and not of a quarter, which negates the view point of the Respondent. Secondly the Respondent has failed to provide evidence of appropriate ongoing monitoring mechanism or alert generation, which can substantiate compliance with the said regulations. The Respondent is therefore found non-compliant with the provisions of Regulation 13 of the AML Regulations.
- c. With regard its eleven high risk clients, it is observed that the Respondent did not provide any evidence of EDD to the inspection team. The Respondent admitted in its reply that it has now developed the format to perform EDD of high risk clients to fulfill the regulatory requirements and provided a blank form for customer EDD. The Respondent failed to provide duly filled EDD forms for the said clients. Hence, the Respondent's mechanism for EDD of its high risk client could not be ascertained from the given information, which depicts that the Respondent is non-compliant with the provisions of Regulations 9 of the AML Regulations.





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- d. With regard to the performance of NADRA verisys of its clients, the stance submitted by the Respondent is tenable. The Respondent submitted that it has also filed a request with NADRA for procurement of their verisys system. The Respondent carries out sufficient measures to verify CNIC of its clients and does not open any account without reference. The said measures of the Respondent appears satisfactory.
- e. With regard to differences in risk rating of customers in back office from those assigned in the KYC/CDD forms, the view point of the Respondent that the status of the customer risk ratings change with ongoing monitoring, appear tenable. However, with regard to improper risk categorization of its clients, the Respondent failed to satisfy the undersigned. It pointed out that the Respondent has now developed a format to document such updation/changes/risk assessment. This shows that the Respondent was lacking in this area and devised the said mechanism after the inspection. The Respondent is therefore found non-compliant with the provisions of Regulation 3 of the AML Regulations.
- f. With regard to identification of beneficial owners, the Respondent submitted that all the clients are beneficial owners of their accounts. The Respondent provided the copies of KYC/CDD check list in this regard. The said response of the Respondent appears tenable.
- g. The Respondent submitted that it has an internal audit department, functioning independently making all due efforts to implement AML/CFT Regulations. During the hearing, the Representatives assured that independent audit department is performing its duties to ensure compliance with AML Regulations. Hence the submission of the Respondent appears tenable.
- h. With regard to failure to report suspicious accounts/ transactions, the Respondent contended that the highlighted transactions did not qualify an STR. An analysis of the observations of the inspection to some extent corroborates with the claim of the Respondent. Primary contention of the inspection team for generating STR was the matter of customer due diligence and ongoing monitoring. The Respondent submitted that it has carried out necessary measure to evaluate the customer information and inquired each transaction. The Respondent obtained the satisfactory response from the clients and justification about these transaction as these matches with the profile of these customers. In this regard, it appear that the Respondent took sufficient measure to investigate these transactions being suspicious or not. The reply of the Respondent appears satisfactory.
- i. With regard to
  - The opening of trading account of son of chief executive of another brokerage house; the Respondent during the hearing admitted that it has closed the said after the observation was highlighted by the inspection team.
  - The Respondent failed to perform KYC/CDD of Mr. Muhammad Amin as he was employee of another brokerage house.
  - Opening account of another brokerage house, the Respondent submitted that it had not opened the account of another brokerage house. However view point of the Respondent is not cogent, as the finding of the inspection clearly shows that the Respondent opened an account of another brokerage house and same was also admitted during hearing. From above, the Respondent is also found non-compliant with the provisions of Regulation 16 of the Securities Brokers (Licensing & Operations) Regulations, 2016.





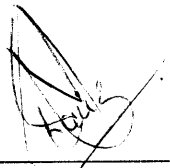
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8. Before arriving at the decision, it is reiterated that the regulatory requirement relating to KYC/CDD and anti-money laundering have been implemented since the year 2012 considering the public interest, the integrity of Pakistan capital market and 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 zero tolerance policy towards the gaps in this area and will not show any leniency.

9. In the view of the foregoing and the admission by the Respondent, contravention of the provisions of AML Regulations and the Securities Brokers (Licensing & Operations) Regulations, 2016 have been established. Therefore, in term of the power conferred under Section 40A of the Act and Section 150 of the Securities Act 2015, a penalty of Rs 250,000/- (Rupees two hundred fifty thousand only) and Rs 20,000/- (Rupees twenty thousand only) respectively, is hereby imposed on the Respondent. The Respondent is advised to enforce the provisions of AML Regulation and Broker Regulations in letter and spirit. The Respondent is directed to deposit the aforesaid penalties 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.

10. 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.



  
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(Shauzab Ali)  
Commissioner (SMD)

Announced on June 10, 2019

Islamabad