



# Securities and Exchange Commission of Pakistan

## BEFORE THE APPELLATE BENCH

In the matter of

### Appeal No. 106 of 2021

Networth Securities Limited

..... Appellant

versus

Director/HOD, Adjudication-I, SECP

..... Respondent

Date of Hearing:

March 18, 2026

Present:

For the Appellant:

Shafqat Ali, Authorized Representative

For the Respondent:

1. Mr. Sohail Qadri, Director/HOD, Adjudication Department-I, SECP
2. Mr. Muhammad Faisal, Deputy Director, Adjudication Department-I, SECP

### ORDER

1. This Order shall dispose of Appeal No. 106 of 2021 filed by Networth Securities Limited (the "Appellant"), against the Order dated August 04, 2021 (the "Impugned Order"), passed by the Director/HoD, Adjudication-I, SECP (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act") read with Regulations 4(a), 6(4), 7(2)(a), 11(2) and 18(c)(iii) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "AML Regulations").



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2. Brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate (“TREC”) holder of Pakistan Stock Exchange Limited (“PSX”). An inspection was carried out to determine the compliance status of the regulatory requirements contained in the AML Regulations. The inspection revealed, *prima facie*, that the Appellant had committed certain violations of the AML Regulations, including failure to monitor, review, and update AML/CFT policies and procedures, particularly by not incorporating deficiencies relating to employee screening and training, in contravention of Regulation 4(a), failure of the Compliance Officer to monitor, review, and update AML/CFT policies and procedures in violation of Regulation 18(c)(iii), failure to provide written justification for categorizing nine customers as ‘low-risk’ as required under Regulation 11(2), failure to perform KYC/CDD of seven trustees in a trust account in violation of Regulation 7(2)(a), and failure to obtain valid identification documents, as CNICs of nineteen main account holders and two joint account holders had expired, in contravention of Regulation 6(4) of the AML Regulations.
3. In view of the aforesaid observations, the Respondent issued a show-cause notice dated April 01, 2021 (the “SCN”) to the Appellant. The Appellant submitted a written reply along with supporting documents on April 15, 2021. Hearing in the matter was conducted on June 02, 2021. Consequently, the Respondent concluded that violations of Regulations 4(a), 6(4), 7(2)(a), 11(2) and 18(c)(iii) of the AML Regulations stood established and, in exercise of powers conferred under Section 40 of the SECP Act, imposed a penalty of Rs. 150,000 (Rupees One Hundred Fifty Thousand only) upon the Appellant.
4. The Appellant has preferred the instant Appeal, *inter alia*, on the grounds that the Impugned Order has been passed in a hasty and mechanical manner without due application of mind and proper appreciation of the facts and applicable law. The Appellant contended that the findings recorded in the Impugned Order are largely a reiteration of the observations contained in the show-cause notice, which themselves were based upon the earlier letter of findings, and that despite submission of detailed written replies along with supporting documentary evidence, the same were neither duly considered nor adequately addressed by the Respondent while passing the Impugned Order.



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5. The Appellant further contended that the Impugned Order is a non-speaking order, as it does not assign cogent reasons for rejecting the explanations furnished by the Appellant, thereby rendering the decision legally unsustainable.
6. The Appellant argued that the Respondent lacked lawful jurisdiction to initiate and conclude proceedings under the AML Regulations, submitting that in view of the Anti-Money Laundering Act, 2010, particularly its overriding provisions, matters relating to money laundering fall within the exclusive domain of the Financial Monitoring Unit (FMU), and consequently, the AML Regulations framed by the Commission are *ultra vires*, rendering the proceedings *void ab initio*.
7. The Appellant submitted that the alleged violation of Regulation 4(a) of the AML Regulations is misconceived, as provisions relating to employee screening and training were duly incorporated in its AML/CFT Policy and Standard Operating Procedures, and supporting documentary evidence was furnished during the inspection as well as in response to the show-cause notice, which was not properly appreciated by the Respondent. The Appellant further contended that the alleged non-compliance under Regulation 18(c)(iii) is merely consequential and cannot be sustained in the absence of any established violation of Regulation 4(a).
8. The Appellant argued that it had categorized its customers into risk categories on the basis of pre-defined parameters contained in the KYC/CDD forms, and that such categorization itself constituted sufficient written justification in terms of Regulation 11(2) of the AML Regulations. The Appellant submitted that the requirement of providing separate or additional written comments, as alleged by the Respondent, is neither prescribed under the law nor practically necessary.
9. The Appellant further contended that no violation of Regulation 7(2)(a) had occurred, as all requisite KYC/CDD measures in respect of the trustees of the trust were duly undertaken, including identification and verification through reliable sources, and that the Respondent has misconstrued the scope and requirements of the said provision.



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10. Lastly, the Appellant submitted that the finding relating to Regulation 6(4) is unsustainable, as the CNICs in question were valid at the time of obtaining the same and had expired subsequently due to circumstances beyond the control of the Appellant, including inactive accounts, deceased clients and delays caused by the COVID-19 pandemic. The Appellant further contended that such observations were initially treated under the Joint Inspection Regulations, 2015 rather than the AML Regulations, and therefore could not have been relied upon to establish a violation under the latter.
11. In response to the submissions of the Appellant, the Respondent, *inter alia*, submitted that the Impugned Order is a reasoned and speaking order, wherein each of the alleged violations was examined in light of the material available on record as well as the submissions advanced by the Appellant during the proceedings. It was argued that the Respondent had duly considered the written reply and oral submissions of the Appellant; however, certain deficiencies and non-compliances, as identified during the inspection, remained unaddressed, necessitating initiation of adjudication proceedings through the issuance of the show-cause notice.
12. The Respondent submitted that with regard to the violation of Regulation 4(a) of the AML Regulations, although the Appellant claimed that the relevant requirements were covered under its AML/CFT Policy, the review of the policy revealed deficiencies in relation to employee screening and training, and during the course of hearing, the authorized representative of the Appellant acknowledged such deficiencies and undertook to rectify the same. The Respondent further contended that the violation of Regulation 18(c)(iii) was consequential in nature and arose directly from the failure of the Appellant to ensure adequate monitoring, review and updating of its AML/CFT policies and procedures.
13. The Respondent argued that in respect of Regulation 11(2), the Appellant failed to provide proper written justification for categorizing certain customers as 'low-risk', and that mere remarks in the comment section of KYC/CDD forms could not be construed as sufficient compliance with the regulatory requirement. It was further submitted that the Appellant, during the hearing, acknowledged the deficiency and stated that the same had been rectified subsequent to the inspection.



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14. With regard to the alleged violation of Regulation 7(2)(a), the Respondent contended that the Appellant failed to perform adequate KYC/CDD of trustees in a trust arrangement, and that the contention of the Appellant regarding the inapplicability of such requirements was misconceived, as the regulation clearly mandates identification and verification of all relevant persons associated with a trust, including trustees and beneficiaries.
15. The Respondent further submitted that in relation to Regulation 6(4), although the Appellant contended that steps had been taken to update expired CNICs, the record revealed that such measures were not taken after the conclusion of the inspection, thereby constituting a violation of the said regulation.
16. Lastly, the Respondent contended that the violations of the AML Regulations stood duly established on the basis of inspection findings, documentary evidence, and admissions made during the proceedings, and that the penalty imposed under the Impugned Order was justified, lawful, and proportionate to the nature of the non-compliances. It was, therefore, submitted that the Impugned Order warrants no interference and is liable to be upheld.
17. The Appellate Bench (the “Bench”) has heard the arguments of both the parties and perused the record. The Bench notes, at the outset, that the Appellant, being a licensed securities broker, was under a continuing statutory obligation to comply with the AML Regulations, and compliance with such obligations is fundamental to the integrity, transparency, and stability of the capital market.
18. One of the principal contentions raised by the Appellant relates to the legality of the AML Regulations which have been alleged to be *ultra vires* the provisions of the SECP Act and the Anti-Money Laundering Act, 2010 (“AML Act”). The Bench has carefully examined this contention. In this regard, the Bench notes that the Commission is a regulatory authority recognized under the AML Act and forms part of the institutional framework responsible for regulating reporting entities operating under its jurisdiction. Furthermore, Section 6(4)(i) of the AML Act empowers the FMU to recommend to regulatory authorities the issuance of regulations necessary for combating money laundering and financing of



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terrorism, particularly in relation to customer due diligence and record-keeping obligations.

The relevant part of Section 6 of the AML Act is reproduced below for reference;

*"6. Financial Monitoring Unit.- (4) The FMU shall exercise the following powers and perform the following functions, namely:-*

*(i) to recommend to the regulatory authorities of reporting entities to issue regulations as considered necessary in the context of combating money laundering and financing of terrorism in the areas of customer due diligence and ancillary record-keeping;"*

The AML Regulations were promulgated pursuant to such recommendation and in exercise of the powers conferred upon the Commission under Sections 20(4)(w) and 40 of the SECP Act. In view thereof, the Bench does not agree with the contention of the Appellant that the AML Regulations are *ultra vires* the governing statutory framework.

19. The Bench now turns to the contention of the Appellant that the Impugned Order is a mechanical and non-speaking order. Having perused the Impugned Order, the Bench observes that the Respondent has recorded specific findings with respect to each of the alleged violations after considering the written and oral submissions of the Appellant. The Impugned Order reflects that the Respondent examined the explanations furnished by the Appellant and, where found unsatisfactory, assigned reasons for the same. Therefore, the contention that the Impugned Order has been passed without application of mind is not borne out from the record and is accordingly rejected.

20. With regard to the alleged violation of Regulation 4(a) of the AML Regulations, the Bench notes that the Appellant had contended that its AML/CFT Policy already covered the requirements relating to employee screening and training. However, the record reveals that deficiencies existed in the policy at the time of inspection. It is also evident from the Impugned Order that during the course of hearing, the authorized representative of the Appellant acknowledged such deficiencies and undertook to rectify the same. In such circumstances, the Bench finds no reason to interfere with the finding of the Respondent that the Appellant had failed to adequately update and maintain its AML/CFT policies in accordance with regulatory requirements.

21. Consequently, the violation of Regulation 18(c)(iii), being intrinsically linked to the failure under Regulation 4(a), also stands established. The Compliance Officer, being responsible



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for monitoring, reviewing, and updating AML/CFT policies and procedures, cannot be absolved where the underlying deficiencies in the policy framework have been duly established.

22. With respect to the violation of Regulation 11(2) of the AML Regulations, the Bench observes that the requirement under the said provision is explicit in mandating that the decision to categorize a customer as low risk must be supported by written justification. The Appellant has contended that such justification was inherent in the KYC/CDD forms and the parameters used therein. However, the Bench concurs with the finding of the Respondent that mere remarks or general entries in KYC/CDD forms cannot be construed as sufficient written justification within the meaning of the regulation. It is also pertinent to note that the Appellant, during the proceedings, acknowledged the deficiency and submitted that corrective measures had been taken subsequently. Accordingly, the finding of violation under Regulation 11(2) is upheld.

23. In relation to Regulation 7(2)(a) of the AML Regulations, the Bench has examined the submissions of the Appellant that KYC/CDD of trustees had been duly carried out. However, the regulatory requirement obligates the reporting entity to identify and verify all relevant persons associated with a trust, including trustees and beneficiaries, through reliable sources. The material on record indicates that such comprehensive verification was not undertaken in the instance highlighted during the inspection. The interpretation advanced by the Appellant seeking to limit the scope of the provision is not tenable. Therefore, the finding of violation under Regulation 7(2)(a) is also maintained.

24. As regards the violation of Regulation 6(4) of the AML Regulations, the Bench observes that although the Appellant has provided explanations regarding the expiry of CNICs and the steps taken for their subsequent renewal, the record reflects that such measures were not taken within the prescribed timelines. The obligation to ensure validity of identification documents is a continuing one and cannot be deferred on account of operational difficulties. The delay in updating the expired CNICs, therefore, constitutes non-compliance with the regulatory requirement. However, the Bench takes note of the explanations furnished by the Appellant, including circumstances such as inactive accounts, deceased clients and



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delays attributable to external factors, which indicate that the lapse, though established, was not entirely devoid of mitigating considerations.

25. Having held that the violations of Regulations 4(a), 18(c)(iii), 11(2), 7(2)(a) and 6(4) of the AML Regulations stand established, the Bench now proceeds to consider the quantum of penalty imposed by the Respondent. It is a settled principle that while regulatory compliance must be enforced strictly, the penalty imposed should be proportionate to the nature and gravity of the violations, and mitigating factors, if any, should also be duly considered.
26. In the present case, the Bench observes that certain deficiencies were acknowledged by the Appellant and corrective measures were undertaken subsequent to the inspection. Furthermore, the violations, though material, pertain primarily to procedural and compliance gaps. In such circumstances, the Bench is of the considered view that while the findings of non-compliance are sustainable, the quantum of penalty imposed warrants reconsideration to align it with the principles of proportionality and fairness.
27. Accordingly, the Bench, while upholding the findings of violations recorded in the Impugned Order, deems it appropriate to reduce the penalty imposed upon the Appellant from Rs. 150,000/- to Rs. 75,000/- (Rupees Seventy-Five Thousand only).
28. Any person or party aggrieved by this Order may, within sixty (60) days from the date hereof, prefer an Appeal under Section 34 of the SECP Act, before the competent forum, strictly in accordance with law. Accordingly, the Appeal is disposed of in the above terms with no order as to costs.

  
(Zeeshan Rehman Khattak)  
Commissioner

  
(Imtiaz Haider)  
Commissioner

Announced on: **26 MAR 2026**