



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 108 of 2023

Muhammad Munir Muhammad Ahmed Khanani Securities Limited

..... Appellant

Versus

Additional Director/HoW, Adjudication Department-I, Adjudication Division, SECP

..... Respondent

Date of Hearing:

May 07, 2026

Present:

For the Appellant:

Mr. Munir Khanani, CEO

For the Respondent:

Mr. Muhammad Akram Farooka, Assistant Director, Adjudication Department-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 108 of 2023 filed by Muhammad Munir Muhammad Ahmed Khanani Securities Limited (the "Appellant"), against order dated November 07, 2023 (the "Impugned Order"), passed by the Additional Director/HoW, Adjudication Department-I, Adjudication Division, SECP (the "Respondent"), under Section 6(A)(2)(h) of the Anti-Money Laundering Act, 2010 (the "AML Act") read with Regulation 31 of the Securities & Exchange Commission of Pakistan (Anti-Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 (the "AML Regulations") and Rules 4(1)(a) and 6(1) of the AML/CFT Sanctions Rules, 2020 (the "AML Rules").
2. Brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate ("TREC") holder of Pakistan Stock Exchange Limited ("PSX") as well as Pakistan



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Mercantile Exchange Limited (“PMEX”) and licensed as a Securities Broker and Futures Broker with the Securities and Exchange Commission of Pakistan (the “Commission”). A review of the Appellant was carried out by the inspection team of PMEX vide inspection notice dated December 01, 2022, covering the period July 01, 2021 to June 30, 2022. The review was conducted to examine compliance of the Appellant with the provisions of the AML Regulations. A Letter of Findings dated January 12, 2023 was communicated to the Appellant, to which a response dated January 18, 2023 was submitted by the Appellant. The Inspection Report dated January 23, 2023 revealed that the Appellant had failed to obtain and maintain adequate information regarding the source of income of 3 of 7 sampled clients, in violation of Regulation 9 read with Note (i)(o) of Annexure-I of the AML Regulations. It was further observed that the Appellant had failed to establish and implement an effective and timely customer screening mechanism at the time of account opening, as mandated under Regulation 25(1)(a) of the AML Regulations. Additionally, the Appellant was found to have failed in instituting and maintaining an independent audit function to periodically test and evaluate the efficacy of its AML/CFT systems and controls, in contravention of Regulation 27(1)(d) of the AML Regulations.

3. In view of the aforesaid observations, the Respondent issued a show-cause notice dated July 06, 2023 (the “SCN”) to the Appellant. The Appellant submitted a written reply to the SCN vide letter dated July 19, 2023. Hearing in the matter was conducted on September 14, 2023. The Appellant contended that it had identified sources of income and provided supporting documentation, and further asserted that as a PMEX broker acting merely as an intermediary without custody of client funds, it should not be subjected to full AML obligations. The Respondent, not satisfied by the submissions of the Appellant held that the Appellant has contravened Note (i)(o) read with Regulations 9, Regulation 25(1)(a) and 27(1)(d) of the AML Regulations. Consequently, the Respondent, vide the Impugned Order, imposed a penalty of Rs. 300,000/- (Pak Rupees Three Hundred Thousand Only) on the Appellant.
4. The Appellant has preferred the instant Appeal, *inter-alia*, on the grounds that the Impugned Order had been passed in violation of the principles of natural justice, as no fair, proper, and meaningful opportunity of hearing had been afforded, and the proceedings were, therefore, *coram non judice* and without lawful authority. The Appellant further



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submitted that the Respondent had failed to apply its independent mind and had merely reproduced the contents of the SCN without adequately considering the detailed replies and justifications placed on record, thereby rendering the decision arbitrary, unreasoned, and legally unsustainable. It was contended that the Appellant had remained fully cooperative throughout the proceedings and had furnished comprehensive information, however, such cooperation had not been duly appreciated, and the penalty was imposed which is disproportionate to the alleged non-compliances.

5. The Appellant further submitted that, being a broker operating under the framework of PMEX, it functioned merely as an intermediary facilitating client onboarding and trading access, without having custody or control over client funds or settlement processes, which are exclusively managed by PMEX. The Appellant also submitted that the accounts in question were opened under the Universal KYC Number (“UKN”) tagging regime in coordination with PMEX and National Clearing Company of Pakistan Limited (“NCCPL”), and that the source of income of the relevant clients had been duly identified and supporting documentation had been provided. It was further submitted that customer screening had been conducted as and when required and evidence thereof had been furnished during the inspection.
6. The Appellant contended that the alleged violations had not been substantiated on the basis of record and that the inspection report and findings were based on mis-appreciation of facts and a pre-conceived approach. It was further submitted that the absence of clearly defined compliance roles within the regulatory framework for PMEX brokers had contributed to the alleged deficiencies, and the adoption of a compliance model akin to that applicable to stock market intermediaries would ensure better regulatory alignment. The Appellant submitted that it should not be subjected to complete AML compliance obligations applicable to entities directly dealing with or controlling client funds and assets as its role was confined to facilitating client onboarding and providing access to the trading platform, whereas custody of client funds as well as clearing and settlement functions were exclusively handled by PMEX.
7. The Appellant reiterated that the findings of non-compliance were unfounded, the inspection was conducted in a biased manner, and the resulting order was contrary to the



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principles of equity and justice. Accordingly, the Appellant prayed that the Impugned Order be set aside.

8. The Respondent rebutted the arguments of the Appellants on the following grounds, *inter-alia*, that the Impugned Order was a speaking and reasoned order, passed after due consideration of the material available on record, the submissions advanced by the Appellant, and the applicable provisions of the AML regulatory framework. It was submitted that the Appellant had been afforded a fair and reasonable opportunity of hearing, including personal hearing conducted on September 14, 2023, which was attended by the authorized representatives of the Appellant. The Respondent further submitted that the penalty imposed was commensurate with the gravity and nature of the established contraventions.
9. The Respondent contended that the Appellant's plea regarding violation of principles of natural justice was misconceived, as the findings recorded in the Impugned Order were based on documentary evidence, admissions made during the proceedings, and the Appellant's failure to substantiate its explanations through record. It was further submitted that the Impugned Order adequately addressed the submissions and defenses raised by the Appellant and clearly explained the basis upon which the contraventions had been established.
10. The Respondent further submitted that the Appellant, being a commodities broker regulated under the relevant legal framework was under a continuing statutory obligation to comply with all applicable KYC/CDD and AML/CFT requirements, irrespective of whether it maintained custody of clients' funds or assets. The Respondent argued that commodities brokers, as frontline intermediaries providing access to the trading platform of PMEX, were required to implement robust systems for identification of clients, verification of source of income, customer due diligence, and screening controls in order to safeguard the integrity of the financial system against money laundering and terrorist financing risks.
11. The Respondent further submitted that the contraventions of Note (i)(o) of Annex-I read with Regulation 9, Regulation 25(1)(a), and Regulation 27(1)(d) of the AML Regulations



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had been conclusively established from the record. It was contended that the documents produced by the Appellant regarding source of income and funds were either irrelevant to the review period, insufficient, or obtained only after issuance of the SCN and hearing proceedings, thereby evidencing subsequent rather than contemporaneous compliance. The Respondent further submitted that customer screening had not been conducted at the time of account opening and was carried out only after the inspection findings, which fact was also admitted by the Appellant during the proceedings. It was additionally submitted that, despite claiming to maintain an independent audit department, the Appellant failed to produce any evidence demonstrating the existence of an independent audit function for AML/CFT systems and controls. Accordingly, the Respondent contended that the impugned order was lawful, reasoned, and warranted no interference by the Appellate Bench.

12. The Appellate Bench (the “Bench”) has heard the arguments of both the parties and perused the record. At the outset, the Bench considers it appropriate to observe that the AML/CFT regime constitutes a preventive and risk-based regulatory framework intended to safeguard the integrity, transparency, and stability of the financial system. The underlying object of the framework is to ensure that regulated entities implement adequate controls and due diligence mechanisms so as to prevent the misuse of financial markets and intermediaries for money laundering, terrorist financing, and related unlawful activities.
13. The obligations imposed under the AML framework are not merely procedural in nature, rather, they are substantive, continuing, and mandatory obligations requiring regulated persons to establish and maintain effective systems for customer due diligence, verification of identity and source of income, risk assessment, customer screening, ongoing monitoring, and internal compliance oversight. These obligations constitute the foundational safeguards of the AML/CFT regime and are intended to ensure that regulated entities do not become conduits for money laundering, terrorist financing, or other illicit financial activities.
14. The Appellant is a “regulated person” within the meaning of Regulation 3(1)(r) of the AML Regulations and is subject to the statutory obligations prescribed thereunder. As such, the Appellant is under a continuing legal obligation to ensure strict compliance with the provisions of the AML Regulations, including all requirements relating to customer due



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diligence, verification and maintenance of source of income information, customer screening, ongoing monitoring, and maintenance of effective AML/CFT compliance systems and controls. For ease of reference Regulation 3(1)(r) of the AML Regulations is reproduced hereunder:

“regulated person” means securities brokers, futures brokers, Insurers, Takaful Operators, NBFCs and Modarabas regulated by SECP under the administered legislation.”

A plain reading of the aforesaid provision leaves no room for ambiguity that both the securities and futures brokers regulated by the Commission fall squarely within the ambit of the AML regulatory framework. The Appellant admittedly operates as a licensed securities and futures broker regulated by the Commission and, therefore, qualifies as a “regulated person” within the meaning of the AML Regulations.

15. The principal contention advanced by the Appellant is that it merely acts as an intermediary facilitating client onboarding and trading access through PMEX and does not exercise custody or control over client funds or settlement mechanisms, which, according to the Appellant, are exclusively managed by PMEX. On this basis, it has been argued that the Appellant ought not to be subjected to the full extent of AML/CFT obligations applicable to entities directly handling client funds and assets. The Bench is unable to persuade itself to agree with the aforesaid contention. The applicability of compliance obligations under the AML framework is not contingent upon the physical custody or control of client funds or assets. Rather, the statutory and regulatory scheme attaches such obligations to the functional role performed by an intermediary within the financial system. Brokers and intermediaries providing access to regulated financial markets constitute the first line of defence against money laundering and terrorist financing risks and are, therefore, entrusted with enhanced obligations relating to customer due diligence, verification, screening, and risk assessment at the customer onboarding stage and throughout the business relationship.
16. This position is further reinforced by the PMEX Regulations, as approved by the Commission on September 18, 2020, particularly Regulation 3.15 relating to the “General Obligations of a Member/Broker,” which unequivocally establishes that brokers operating within the PMEX framework are independently responsible for compliance with all



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applicable legal and regulatory obligations. The regulatory scheme does not treat brokers as passive intermediaries or mere facilitators, rather, it recognizes them as primary accountable entities responsible for maintaining adequate administrative systems, facilities, resources, expertise, and controls in relation to client dealings, record maintenance, and regulatory compliance. The cumulative effect of Regulation 3.13 clearly demonstrates that the broker bears an independent and continuing obligation to ensure adherence to all applicable regulatory requirements, including AML/CFT obligations, and cannot avoid such responsibility by attributing certain operational functions to PMEX or any other centralized mechanism. For ease of reference, Regulation 3.15, is reproduced hereunder:

"3.15 General Obligations of a TRE Certificate Holder / Broker:

The TRE Certificate Holder / Broker is the primary obligor of the Exchange and would be responsible for all its own and its Customers liabilities to the Exchange.

TRE Certificate Holder / Brokers shall at all times have and maintain the necessary administrative and other systems, facilities, resources and expertise to ensure that;

(i) know your customer and customer due diligence measures are in place to combat money laundering;

(ii) they comply with all financial requirements pertaining to the relevant category of TRE Certificate.

(iii) Any other requirement as may be specified by the Exchange from time to time."

17. The CKO framework also does not support the contention of the Appellant. A plain reading of Regulation 9.2(ii) of the CKO Regulations makes it abundantly clear that the existence of a valid UKN or participation in the centralized KYC database does not, in any manner, absolve or dilute the independent obligations of an authorized intermediary to conduct KYC of its clients. The said Regulation mandates that the authorized intermediary shall perform the KYC procedures in respect of a Customer which has already obtained a valid UKN in the KYC Database, including but not limited to obtaining all required identification documents, checking the copies of supporting documents with original and biometric verification, where applicable. The language employed leaves no doubt that the responsibility for verification of identity, scrutiny of supporting documents, and



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maintenance of complete customer due diligence records continues to rest with the authorized intermediary, notwithstanding the centralized KYC mechanism. The UKN framework is facilitative and administrative in character, intended to streamline onboarding processes; it neither substitutes the statutory AML/CFT obligations nor transfers the burden of compliance away from the regulated intermediary. This position is further reinforced by PMEX Notification No. **PMEX/MKT,BD&CSS/2019/45** dated October 01, 2019, which expressly provides that proof of business/employment is to be submitted to the authorized intermediary and that the authorized intermediary shall be responsible for verification/maintenance of documentary proof. The cumulative effect of the aforesaid provisions is that the responsibility for ensuring adequacy, authenticity, and maintenance of KYC/CDD documentation vests squarely in the broker, and such responsibility cannot be displaced by reliance upon the centralized KYC infrastructure or the UKN regime. Regulation 9.2(ii) of the CKO Regulations is reproduced below for ease of reference:

9.2 Registration of Customers having UKN: ...

ii. The Authorized Intermediary shall perform the KYC procedures in respect of a Customer which has already obtained a valid UKN in the KYC Database through another Authorized Intermediary, which it is required to conduct at the time any Customer registers with it under the laws and regulations applicable to that Authorized Intermediary including but not limited to obtaining all required identification documents, checking the copies of supporting documents with original and Biometric Verification, where applicable...

18. The record reveals that, during the inspection, material deficiencies were identified in the Appellant's AML/CFT compliance framework, particularly with respect to customer due diligence documentation relating to source of income, the effectiveness of customer screening at the onboarding stage, and the existence and functional independence of an internal audit mechanism for AML/CFT controls. The material available on record indicates that these deficiencies pertained to fundamental compliance safeguards intended to ensure effective identification, assessment, and mitigation of financial crime risks at the time of on-boarding of the customers. It further appears that the documentation subsequently relied upon by the Appellant was either not related to the relevant review period or was procured after the initiation of regulatory proceedings, thereby failing to



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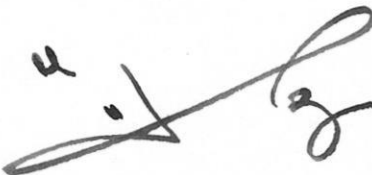
establish prior compliance in the manner required under the regulatory regime. In the absence of credible, contemporaneous, and independently verifiable evidence, the Appellant's assertions remain unsubstantiated.

19. The Bench is mindful of the fact that the record reflects certain remedial and corrective measures undertaken by the Appellant subsequent to the inspection. At the same time, the Bench notes that the Appellant continued to contend that the AML/CFT framework and the corresponding regulatory obligations were not fully applicable to its business operations. In this regard, the Bench observes that once the Appellant falls within the regulatory ambit governing regulated persons, it remains under a statutory obligation to ensure full compliance with the applicable AML/CFT regime, and cannot avoid liability on the ground of a restrictive interpretation of the scope of such obligations.

20. In view of the foregoing discussion and findings, the Bench finds no legal or factual infirmity in the Impugned Order warranting interference in appellate jurisdiction. The Bench, therefore, upholds the Impugned Order in its entirety, including the penalty of Rs. 300,000/- (Rupees Three Hundred Thousand) imposed upon the Appellant. The Appellant is directed to comply with the terms of the Impugned Order in accordance with law. Consequently, the instant Appeal stands dismissed with no order as to costs.

21. Any person or party aggrieved by this Order may, within thirty (30) days from the date hereof, file a Review under section 32B(2), or within sixty (60) days prefer an Appeal under section 34, of the Securities and Exchange Commission of Pakistan Act, 1997 before the competent forum, in accordance with law.


(Zeeshan Rehman Khattak)
Commissioner


(Muzzafar Ahmed Mirza)
Commissioner

Announced on: **18 MAY 2026**