



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 111 of 2020

Rahat Securities Limited

versus

Appellant

Executive Director – Adjudication-I

Respondent

Date of hearing:

February 26, 2026

Present:

For the Appellant:

1. Mr. Chaudhary Muhammad Afzal (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 disposes of Appeal No. 111 of 2020 filed by Rahat Securities Limited (the “Appellant”) against the Order dated July 29, 2020 (the “Impugned Order”) passed by the Executive Director – Adjudication-I, Securities and Exchange Commission of Pakistan (the “Respondent”) under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the “SECP Act”).
2. The brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited and is licensed as a securities broker under the Securities Act, 2015. A Thematic Inspection (the “Inspection”) conducted by the Joint Inspection Team (“JIT”) of the Respondent in 2020 revealed certain non-compliances



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with the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the “AML Regulations”). The Inspection found that the Appellant had not maintained a centralized database of beneficial owners and authorized persons of its clients, which hindered the performance of required screenings against the lists of proscribed persons or designated individuals, in violation of Regulations 4(a) and 13(7) of the AML Regulations. In addition, the Appellant failed to validate copies of identity documents of fourteen clients through the NADRA *Verisys* system, contrary to the requirements of Regulation 6(4), and did not validate the identity of natural persons with controlling ownership interests in legal persons as required under Regulation 7(1)(b). Further, the Appellant was unable to demonstrate, post-inspection, evidence of a functional mechanism or procedure to monitor client relationships on an ongoing basis in compliance with Regulation 13(1).

3. Subsequently, the Respondent served Show-Cause Notice No. 2(240)/SMD/Adj-I/2020 (the “SCN”), dated April 27, 2020. The Appellant responded on June 4, 2020, submitting detailed explanations regarding its ongoing monitoring of client transactions, installation of the NADRA *E-Verisys* system, maintenance of client databases, and other compliance measures undertaken both prior to and following the Inspection. After considering the Appellant’s response and the hearing held on June 18, 2020, the Respondent, through the Impugned Order, held the Appellant liable and imposed a penalty of Rs. 300,000.
4. The Appellant submitted that the Impugned Order was passed despite its having taken all reasonable steps to comply with the AML/CFT Regulations. The Appellant explained that a Thematic Review (the “Review”) had been conducted on November 29, 2019, focusing on specific areas including beneficial ownership, enhanced due diligence, the compliance function, and targeted financial sanctions under clause 19(ee) of the Joint Inspection Regulations, 2015. The Appellant submitted a detailed written reply to the Review on December 3, 2019, providing evidence and explanations for each observation highlighted by the JIT. Subsequently, in response to the SCN, the Appellant filed a further detailed reply on June 4, 2020, along with supporting documents, and attended a hearing conducted via Skype on June 18, 2020, to clarify the same.
5. The Appellant further contended that the Respondent’s assertion that it could not demonstrate a functional mechanism for ongoing monitoring of client relationships under Regulation 13(1)

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was factually incorrect. The Appellant submitted that the mechanism for ongoing monitoring formed part of its AML/CFT policies, which had been shared with the JIT during the Inspection and subsequently re-submitted for the record. The Appellant further explained that client transactions were monitored through tax returns, trade order verifications, and active screening, ensuring compliance with AML/CFT requirements without disrupting client operations. Original documentation, including Know Your Customer (KYC)/Customer Due Diligence (CDD) documents, bank statements, and proofs of employment or business ownership, was verified for all clients at the time of account opening.

6. Regarding the alleged non-maintenance of a complete database of beneficial owners and authorized persons in violation of Regulations 4(a) and 13(7), the Appellant clarified that a database had been maintained in accordance with SECP directives since the inception of its operations, and that all relevant client details were verified against the National Counter Terrorism Authority Pakistan (NACTA) and the United Nations Security Council resolution (UNSCR) lists. Following the Inspection, the Appellant submitted that it installed the NADRA *E-Verisys* system to further enhance verification procedures, thereby rectifying any procedural gaps noted by the JIT. The Appellant also highlighted that certain accounts had been inactive since 2014 and that, despite repeated requests, clients did not update their information until the installation of *E-Verisys*, at which point the Appellant completed the verification process and attached relevant records for the Respondent's reference.
7. The Appellant further submitted that the penalty imposed was premature and disproportionate, given that the NADRA *E-Verisys* system, which facilitated compliance with Regulations 6(4) and 7(1)(b), was not operational at the time of Inspection. The Appellant emphasized that it had always acted in good faith and complied with SECP directives to the extent possible, including verifying client identities through available channels, maintaining electronic and hard copy records, and conducting screenings against proscribed persons' lists through UNSCR and NACTA databases.
8. In view of the foregoing, the Appellant requested that the Bench exercise discretion in favor of a lenient approach, considering the proactive compliance measures and the intent of senior management to fully adhere to the AML/CFT Regulations, and that the Impugned Order, including the penalty, be set aside in recognition of the Appellant's demonstrated efforts to comply with regulatory obligations.

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9. The Respondent respectfully contended that the present Appeal is misconceived and liable to be dismissed, as the Impugned Order was passed strictly in accordance with the SECP Act and the applicable AML/CFT Regulations, after due process and upon proper appreciation of the material available on record.
10. The Respondent submitted that the proceedings were initiated through a duly issued SCN, which clearly identified the alleged violations on the basis of findings recorded during the Inspection conducted by the JIT. It was further contended that the Appellant was afforded a full and fair opportunity to submit a written reply and was also granted a personal hearing. The Respondent emphasized that both the written submissions and the oral arguments advanced at the hearing were duly considered and addressed in the Impugned Order. Accordingly, it was argued that the Appellant failed to demonstrate any procedural irregularity or denial of the right of hearing.
11. With respect to the alleged non-compliance of Regulation 13(1) of the AML Regulations, the Respondent contended that the Inspection findings clearly established absence of a demonstrable and functional mechanism for ongoing monitoring of business relationships at the time of Inspection. The Respondent further submitted that the Appellant failed to produce contemporaneous documentary evidence reflecting systematic monitoring, transaction review trails, risk-based assessments, or documented oversight measures. The submission of an undated document titled as a “mechanism” was argued to be insufficient to establish effective implementation. The Respondent maintained that regulatory compliance requires not merely the existence of policy documents but demonstrable operationalization thereof. The impugned finding, therefore, was based on evidentiary deficiency rather than presumption.
12. In relation to Regulations 4(a) and 13(7), the Respondent argued that the Appellant did not maintain a centralized, verifiable, and comprehensive database of beneficial owners and authorized persons enabling proper screening against lists of proscribed persons and designated entities. The plea that data was maintained in Excel format was neither substantiated through production of a complete database nor supported by evidence of consistent and comprehensive screening. The Respondent submitted that the Appellant could only provide limited screening evidence and failed to demonstrate that beneficial owners and authorized persons were screened in a structured and documented manner. The subsequent installation of dedicated


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compliance software was contended to be an implicit acknowledgment of prior deficiency and cannot retrospectively cure a regulatory breach that existed at the relevant time.

13. With regard to Regulation 6(4), the Respondent submitted that the Appellant admittedly did not validate photocopies of identity documents of fourteen customers through NADRA *Verisys* at the time of inspection. It was argued that the regulatory obligation is mandatory in nature and not contingent upon internal readiness or system installation. The contention that the NADRA *E-Verisys* facility subscription was under implementation was submitted to be immaterial, as compliance obligations under AML Regulations are continuous and non-derogable. Subsequent verification carried out after installation of the system was characterized as remedial compliance and not evidence of prior adherence.
14. Similarly, in respect of Regulation 7(1)(b), the Respondent argued that the Appellant failed to verify and validate the identity of natural persons exercising controlling ownership in at least one instance. During hearing proceedings, the Appellant acknowledged the lapse and attributed it to non-availability of the NADRA system. The Respondent submitted that such admission was duly recorded and formed part of the adjudicatory record. It was contended that the Impugned Order correctly treated the admission as corroborative of the Inspection findings.
15. The Respondent further submitted that the violations established in the Impugned Order pertain to core AML/CFT obligations, including CDD, beneficial ownership identification, screening against proscribed lists, and ongoing monitoring of transactions. These obligations form the backbone of the preventive regulatory regime. It was argued that the absence of an identified money laundering transaction does not negate non-compliance with preventive safeguards. The statutory framework empowers the SECP to ensure strict adherence to these controls in order to protect the integrity of the financial system.
16. On the question of penalty, the Respondent contended that the amount of penalty imposed is proportionate, moderate, and well within the prescribed statutory limits. It was submitted that although multiple regulatory breaches were established, a consolidated and measured penalty was imposed. The Respondent maintained that the Impugned Order is reasoned, lawful, and grounded in admitted and documented contraventions of Regulations 13(1), 4(a), 13(7), 6(4), and 7(1)(b) of the AML Regulations. Accordingly, it was prayed that the present Appeal be dismissed and the Impugned Order be upheld in the interest of regulatory compliance, deterrence, and preservation of market integrity.


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17. The Bench has examined the record, the Impugned Order, and the submissions of the parties. The material available on record supports the finding that the Appellant was not fully compliant with Regulations 13(1), 4(a), 13(7), 6(4), and 7(1)(b) of the AML Regulations at the time of inspection. The Appellant was unable to demonstrate a fully operational ongoing monitoring mechanism, had not validated certain identity documents through NADRA *Verisys*, and did not maintain a centralized and verifiable database enabling comprehensive screening of beneficial owners and authorized persons. The Bench, therefore, finds no infirmity in the conclusion that contraventions were established.
18. However, the Bench also notes that the violations were procedural in nature, no instance of money laundering or suspicious transaction was identified, and the Appellant undertook corrective measures, including installation of the NADRA *E-Verisys* system and enhancement of compliance controls, prior to final adjudication. These mitigating factors warrant consideration in determining proportionality.
19. Accordingly, while the findings of contravention are upheld, the Bench is of the view that the penalty requires moderation. In exercise of appellate jurisdiction, the penalty of Rs. 300,000 imposed under Section 40A of the SECP Act is reduced to Rs. 150,000. The Impugned Order is maintained to this extent with modification in the quantum of penalty only.
20. 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 Securities and Exchange Commission of Pakistan Act, 1997, before the competent forum, strictly in accordance with law. Accordingly, the Appeal stands disposed of in the above terms with no order as to costs.


(Zeeshan Rehman Khattak)
Commissioner


(Imtiaz Haider)
Commissioner

Announced on:

06 MAR 2026