



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 113 of 2020

Msmaniar Financials (Pvt.) Limited

...Appellant

Versus

Executive Director, Adjudication Department-I, SECP.

...Respondent

Date of hearing:

29th May, 2025

Present:

For the Appellant:

Mr. Mohammad Saad Maniar, CEO (Authorized Representative)

For the Respondent:

1. Mr. Mubasher Saeed Saddozai, Executive Director, (Adjudication Division, SECP)
2. Mr. Muhammad Faisal, Deputy Director, (Adjudication-I, SECP)

ORDER

1. This Order shall dispose of Appeal No. 113 of 2020 filed by Msmaniar Financial (Pvt.) Limited (the "Appellant") under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 (the "the SECP Act") against the Order dated July 20, 2020 (the "Impugned Order") passed by the Executive Director, Adjudication-I ("the Respondent") under Section 40A of the Securities and Exchange Commission of Pakistan Act ("the SECP Act").
2. The brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited ("the PSX") and a licensed securities broker with the Securities and Exchange Commission of Pakistan ("the Commission"). The inspection of the Appellant was initiated to review and check compliance with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Counter Financing of Terrorism



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Regulations) 2018 ("the AML & CFT Regulations") in pursuance of Notice No. T057. The inspection was conducted by the Joint Inspection Team ("JIT") of PSX and Central Depository Company of Pakistan Limited ("CDC"). The inspections revealed various non-compliances of the AML & CFT Regulations including Regulation 4(a) read with 13(7), 6(4) read with Annexure I(i), and Regulations 6(3)(a), 6(3)(c), 6(3)(3), 9(4), 13(1), and 13(3).

3. In light of the aforementioned violations, a Show Cause Notice dated April 27, 2020 (the "SCN") was issued to the Appellant. A reply to the SCN was submitted by the Appellant on June 02, 2020 and June 18, 2020. Accordingly, the Appellant was accorded an opportunity of personal hearing on July 15, 2020. Subsequently, the Respondent not being satisfied with the response and stance of the Appellant imposed a penalty of Rs.650,000/- (Rupees Six Hundred and Fifty Thousand Only) on the Appellant with a direction to complete screening of its clients and their associated individuals and acquire a biometric CNIC validation system.
4. The Appellant has preferred this Appeal, *inter alia*, on several grounds, including the assertion that the Impugned Order lacks a proper appreciation of the relevant law and facts of the matter. The Appellant asserted that they had illustrated a commitment to comply with the AML & CFT Regulations and had duly implemented key measures in line with the AML & CFT Regulations. With regard to the allegation of non-compliance with Regulation 4(a) read with 13(7), it was submitted that the Appellant has a functional screening system utilizing the NACTA database. It was explained that the system enables scanning of all new accounts and associated individuals, and that evidence of the system's active use was previously inspected and verified by the JIT. Furthermore, to substantiate the effectiveness and continuity of its screening mechanism, the Appellant submitted proof of having reported a proscribed individual linked to a dormant account to the Commission in December, 2019.
5. The Appellant further contended that all accounts opened post-2016 were duly verified using NADRA *Verisys* through NCCPL, and biometric verification was adopted at the brokerage office for all new clients in 2019. It was submitted that an application to NADRA for an independent *Verisys* system had also been made, and in the interim, CNIC validation continued to be conducted either manually or via the biometric system. The Appellant, therefore, contested the finding of the violation of Regulation 6, asserting that verification and due diligence were carried out in accordance with the AML & CFT Regulations.
6. With regard to the Respondent's contention about enhanced due diligence ("the EDD") and source of funds, the Appellant argued that wealth statements, NTN certificates, and other supporting documents had been submitted for clients flagged during the inspection. In addition, the Appellant emphasized that most of the clients were either personally known to the management or related to



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longstanding customers, and that all payments were processed through crossed cheques, mitigating the risk of money laundering and demonstrating practical compliance with Regulations 6(3), 6(5), and 9(4) of the AML & CFT Regulations. It was further contended that some clients identified as "high risk" were categorized so under the Appellant's internal control framework, aimed solely at managing trading exposure and not in terms of the AML and CFT risk categorization. The Appellant submitted that such categorization did not imply elevated risk of money laundering, and no account was opened without proper due diligence or where any AML and CFT related risk existed.

7. The Appellant also submitted that the Respondent failed to acknowledge their limited customer base and personalized service model while passing the Impugned Order. It was asserted that the Appellant does not offer financing facilities, that all trades are pre-funded, and that the nature and size of transactions were monitored in real-time. Consequently, the Appellant argued that the compliance obligations under Regulation 6(3)(c), particularly in relation to monitoring of unusual transactions or client profiling, were satisfied. In conclusion, it was argued that the compliance gaps alleged in the Impugned Order were not only minor and technical but had also been either explained or remedied. The Appellant maintained that any perceived deficiency was the result of a miscommunication during inspection and not a wilful or systemic contravention. The Appellant prayed for the setting aside of the penalty on grounds of proportionality, good faith efforts, and compliance history, and requested that the matter be decided in line with principles of administrative fairness and equitable enforcement.
8. In response, the Respondent countered the grounds raised in the Appeal and emphasized that the Impugned Order was a speaking order, issued after a thorough evaluation of the Appellant's submissions, documentary record, and the applicable provisions of the AML & CFT Regulations. The Respondent submitted that the findings were not only legally justified but also factually substantiated during inspection and subsequent proceedings.
9. The Respondent refuted the Appellant's claim regarding the implementation of a functional screening system. It was asserted that during inspection, the Appellant admitted it had not acquired any automated screening system for scanning customers or related persons against proscribed lists. The Respondent emphasized that the Appellant's practice of manual screening, particularly with a client base of approximately 1,740 and assets under custody exceeding Rs. 803 million, was insufficient and unreliable. No documentary evidence was furnished to prove real-time screening at the time of account opening or ongoing screening of customers, beneficial owners, trustees, or associated persons. Hence, the Appellant failed to meet the requirements under Regulation 4(a) read with 13(7) of the AML Regulations.



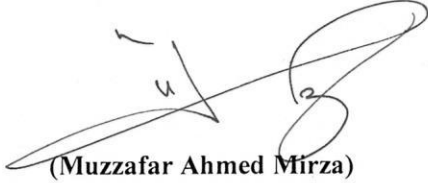
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10. The Respondent further submitted that the Appellant had not validated the identity documents of customers and associated persons using NADRA *Verisys* or any equivalent biometric verification system at the relevant time. This failure to undertake proper customer due diligence was in direct contravention of Regulation 6(3) and was duly noted in the inspection and incorporated in the Impugned Order.
11. Addressing the Appellant's claim of having submitted wealth statements, tax returns, or personal references as sufficient evidence of the source of funds, the Respondent contended that these were generic documents and lacked specific detail required under the AML & CFT Regulations. The Respondent iterated that the deficiencies noted related to lack of EDD; absence of evidence on beneficial ownership, and inadequate monitoring mechanisms. These were significant compliance gaps, not minor technical lapses.
12. The Respondent dismissed the argument that smaller brokers may be held to a different standard of compliance. It was contended that AML & CFT Regulations are obligatory in a uniform way across all regulated intermediaries, regardless of their operational scale. The Respondent stated that the Appellant's failure to produce required documentation and the absence of systematic controls justified the issuance of the SCN and the imposition of penalty under Section 40A of the SECP Act. Accordingly, the Respondent prayed that the Impugned Order be upheld in its entirety and that the Appeal be dismissed, as the violations were material and the Appellant's assertions lacked evidentiary support or legal merit.
13. The Bench has carefully considered the submissions made by both the Appellant and the Respondent and has examined the record in detail. The Bench acknowledges that while there were indeed shortcomings in the Appellant's compliance with the AML & CFT Regulations, particularly in relation to client screening, identity verification, and documentation of source of funds, the violations were not wilful or indicative of systemic disregard. The Bench acknowledges that the Appellant is a small brokerage entity with a limited customer base and that certain compliance efforts, albeit delayed, had been undertaken prior to and following the inspection; including reporting of proscribed individuals, adoption of biometric systems, and screening of account holders.
14. While the Bench finds merit in the Respondent's conclusion that the Appellant did not fully meet the regulatory threshold under Regulations 4(a), 6(3), and 13(7) of the AML & CFT Regulations at the time of inspection, it also notes that there was no evidence of financial misconduct, facilitation of unlawful transactions, or concealment of material information. The contraventions, in the circumstances, are better characterized as technical lapses in implementation rather than deliberate non-compliances.



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15. Accordingly, while upholding the finding of non-compliance, the Bench is persuaded that the penalty imposed vide the Impugned Order warrants reconsideration in light of the principle of proportionality and the remedial actions taken by the Appellant. The penalty of Rs. 650,000/- (Rupees Six Hundred and Fifty Thousand) imposed under Section 40A of the SECP Act, 1997 is therefore reduced to Rs. 50,000/- (Rupees Fifty Thousand only). The Appellant is further advised to strengthen its AML & CFT compliance framework, ensure timely implementation of automated screening and verification systems, and maintain ongoing compliance with the AML & CFT Regulations in both letter and spirit.
16. In view of the above, the Appeal is disposed of with modification to the penalty, with no order as to costs.



(Muzzafar Ahmed Mirza)

Commissioner



(Abdul Rehman Warraich)

Commissioner

Announced on:

20 AUG 2025