



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 120 of 2022

EFU Life Assurance Limited

...Appellant

versus

Executive Director/HOD Adjudication-I, SECP

...Respondent

Date of hearing:

April 22, 2026

For the Appellant:

Mr. Rashid Sadiq, RS Corporate Advisory

For the Respondent:

1. Mr. Sohail Qadri, Director, Adjudication-I, SECP
2. Mr. Shafique Ur Rehman, Additional Joint Director, Adjudication-I SECP

ORDER

1. This Order shall dispose of Appeal No. 120 of 2022 filed by EFU Life Assurance Limited (the Appellant) under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act"), against order dated October 14, 2022 (the "Impugned Order"), for contravention of Rule 16 of the Insurance Rules, 2017 (the "Rules") read along with Section 35(7) of the Insurance Ordinance, 2000 (the "Ordinance").
2. The brief facts of the instant appeal are that the Appellant is a company registered with the Securities and Exchange Commission of Pakistan (the "Commission") under the Ordinance to undertake life



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insurance business in Pakistan. While examining the annual financial statements of the Appellant for the year ended December 31, 2020, it was observed that the Company did not comply with the minimum investment requirements of 30% of total assets of its Shareholders' Fund in government securities and further 10% in a combination of government securities and other approved securities as required under Rule 16 of the Rules read with Section 35(7) of the Ordinance. The Appellant, in response to the Securities and Exchange Commission of Pakistan (the Commission) letter dated March 18, 2022, submitted its comments vide letter dated April 12, 2022, and took the stance that "*Our tax refunds are amounting to Rs. 854 million. Out of this Rs. 733 million was for the year 2019 when huge amount of withholding of taxes were made on our investments, these tax refunds will only be adjusted against future tax liabilities which will take 2 to 3 years as FBR had refused to refund it in cash. The reason why we are unable to comply with the requirements of Section 35 is that funds are stuck up with FBR in form of Tax Refunds. We request you to give us time to sort this problem*". It was further observed that the Appellant was also non-compliant with respect to the requirements of Rule 16 of the Rules read with Section 35(7) of the Ordinance in FY 2019 as only 18.33% of the total assets of the Shareholders' Fund were invested in government securities, however, the Appellant stated that it had complied with the said requirement of the law in its financial statements for FY 2020.

3. In light of the aforementioned violation, a show-cause notice dated June 3, 2022 (the "SCN") was issued to the Appellant. The Appellant submitted its reply to the SCN vide letter dated July 6, 2022, and the hearing was scheduled for September 21, 2022, which was attended by the authorised representative of the Appellant. After examining the submissions and considering the facts, the Respondent was of the view that violation of Rule 16 of the Rules read with Section 35(7) of the Ordinance is clearly established and imposed a penalty of Rs. 100,000/- (One Hundred Thousand Rupees) under Section 156 of the Ordinance on the Appellant.
4. The Appellant has preferred this appeal *inter alia* on the grounds that the penal Section 156 of the Ordinance does not extend to violations of the Rules, which also do not prescribe any penalty for alleged violation of Rule 16 of the Rules. The penal consequences under Section 156 are limited to contraventions of the Ordinance or directions issued thereunder. The Appellant argued that Section 35(7) of the Ordinance only empowers the Federal Government to prescribe investment percentages which shall be invested by the insurance companies; however, the Federal Government has not prescribed any percentages under this provision, and the same has been prescribed by the Commission



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under the Rules. Moreover, the Rules have been promulgated under Section 167 of the Ordinance, however, there is no penalty provision provided in Section 167 of the Ordinance for non-compliance with the Rules. To support this argument, it was submitted that Section 40A of the SECP Act provides penalties for violation of the Rules made under Section 39 thereof. The Appellant contended that Section 508 of the Companies Act, 2017 provides penalties for violation of rules made thereunder by the Federal Government. Accordingly, the Appellant stated that the Respondent lacks jurisdiction to impose the impugned penalty, and such action constitutes a violation of the Appellant's constitutional rights under Articles 4 and 10A of the Constitution of the Islamic Republic of Pakistan, 1973.

5. The Appellant also contended that a bare perusal of Section 35(7) of the Ordinance reveals that the law allows for investments in government securities, or in a combination of government securities and other approved securities, to be made from the Shareholders' Fund or from the Statutory Fund of a life-insurer. The Appellant further submitted that it is obvious that the word "or" has been used instead of "and" not only in section 35(7) of the Ordinance but also in Rule 16 of the Rules. It was further submitted by the Appellant that it is a settled position in law that legislature is assumed to be cognizant of its purpose and intention, therefore its ordinary and plain meaning cannot be departed from, as has been done in the Impugned Order by substitution of the expression "or" by "and" in Rule 16 of the Rules and Section 35(7) of the Ordinance. While concluding the arguments, the Appellant submitted that since the Impugned Order does not provide any cogent reasoning for its substitution of the expression "and" for "or" in Rule 16 of the Rules and Section 24A of the General Clauses Act, 1895, which reiterates the principle that the statutory right is to be exercised "reasonably, fairly justly and for the advancement of the purposes of the enactment" and that any action by an executive authority which is violative of these principles is liable to be struck down.
6. The Respondent countered the grounds of the appeal by asserting that Section 35(7) of the Ordinance definitely stipulates the aforesaid requirements of the Ordinance and contravention of the requirements of the Ordinance is liable to punitive action under Section 156 of the Ordinance. The Respondent further argued that there can be no excuse for the interpretation of the provisions of the Ordinance and the Rules.
7. The Respondent further submitted that the Appellant failed to comply with the minimum investment requirements in a combination of the government securities and other approved securities in the



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Shareholders' Fund as per the provisions of Rule 16 of the Rules and Section 35(7) of the Ordinance. The Respondent further stated that the context of the provisions of Section 35(7) of the Ordinance implies that the requirement of investing the prescribed percentage of total assets would apply on non-linked statutory funds as well as the Shareholders' Fund to maintain liquidity of funds. While concluding the arguments, the Respondent prayed before the Bench that the Impugned Order be maintained.

8. The Appellate Bench (the "Bench") has heard the arguments of both parties and perused the record. The Bench finds it important to reproduce the relevant sections of the law.

Rule 16 of the Rules states that:

"Assets to be invested in securities. - (1) thirty per cent of the assets, excluding inter-fund receivables of the shareholders' fund of a life insurer, or of a statutory fund of a life insurer, other than a statutory fund which contains only investment linked policies, shall be invested in Government securities, under sub-section (7) of section 35 of the Ordinance.

(2) A further ten percent of the assets, excluding inter-fund receivables of the shareholders' fund of a life insurer, or of a statutory fund of a life insurer, other than a statutory fund which contains only investment linked policies, shall be invested in a combination of Government securities and other approved securities, under sub-section (7) of section 35 of the Ordinance."

Section 35(7) of the ordinance states that:

"(7) The Federal Government may prescribe a percentage or percentages of the assets of the shareholders' fund of a life insurer, or of a statutory fund of a life insurer, other than a statutory fund which contains only investment-linked policies, which shall be invested in Government securities, or in a combination of Government securities and other approved securities."

9. The Bench has carefully considered the submissions advanced by the Appellant regarding the applicability of the penal provision contained in Section 156 of the Ordinance to the alleged violation of Rule 16 of the Rules. The Appellant has contended that Section 156 of the Ordinance does not expressly provide for penalties in respect of violations of the Rules and further, that the Rules themselves do not contain any independent penal provision. On such a basis, the Appellant has argued that no penalty could legally be imposed either under the Ordinance or under the Rules.



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10. At the outset, it is important to note that the Rules are not independent or standalone instruments, but are subordinate legislation framed by the Federal Government in exercise of powers conferred under Section 167 of the Ordinance. Consequently, the Rules derive their legal force, authority, and enforceability directly from the parent statute, namely; the Ordinance. It is a settled principle of law that subordinate legislation cannot exist in isolation from the parent enactment and must be read as an extension and operational mechanism of the statute under which it has been framed. Therefore, a violation of a Rule validly framed under the enabling provision of the Ordinance constitutes, in effect, a violation of the statutory scheme of the Ordinance itself.
11. In the present matter, Rule 16 merely operationalizes and gives effect to the substantive mandate contained in Section 35(7) of the Ordinance. Section 35(7) of the Ordinance expressly empowers the Federal Government to prescribe the percentage of assets of the Shareholders' Fund or statutory fund to be invested in Government securities or approved securities. Pursuant to such statutory delegation, Rule 16 of the Rules specifies the precise investment percentages required to be maintained. Thus, Rule 16 is not creating a new or independent obligation beyond the mandate of the Ordinance; rather, it is prescribing the mechanism and quantitative thresholds contemplated under Section 35(7) of the Ordinance. Accordingly, non-compliance with Rule 16 amounts to non-compliance with the statutory requirements envisaged under Section 35(7) of the Ordinance.
12. The Bench is of the view that acceptance of the Appellant's interpretation would lead to an anomalous and legally untenable consequence whereby statutory rules framed under delegated legislative authority would become unenforceable merely because the Rules do not separately reproduce a penal clause. Such an interpretation would defeat the very purpose of delegated legislation and frustrate the regulatory framework established under the Ordinance. It is a settled canon of interpretation that a statute must be construed in a manner that advances the purpose of the legislation and avoids interpretations leading to absurdity, redundancy, or regulatory paralysis.
13. Moreover, Section 156 of the Ordinance provides the enforcement and penal mechanism for contraventions committed under the statutory regime established by the Ordinance. Since Rule 16 has been framed pursuant to Section 167 of the Ordinance and in furtherance of Section 35(7) of the Ordinance, the Respondent was legally justified in invoking Section 156 for the enforcement of



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compliance with the prescribed investment requirements. The absence of a separately worded penal provision within the Rules does not dilute the applicability of the enforcement provisions already provided under the parent statute. In view of the foregoing, the Bench finds that the Respondent has rightly invoked Section 156 of the Ordinance for the alleged violation of Rule 16 of the Rules. The Appellant's contention that no penalty could be imposed in the absence of an express penal clause in the Rules is misconceived, contrary to settled principles governing delegated legislation, and therefore rejected.

14. Moreover, a plain reading of Rule 16 of the Rules read with Section 35(7) of the Ordinance leaves no ambiguity that the legislature has consciously employed the disjunctive expression "or" while referring to the "Shareholders' Fund of a life insurer, or of a statutory fund of a life insurer", thereby signifying an alternative and not a cumulative requirement. It is a settled principle of statutory interpretation that the word "or" ordinarily conveys a disjunctive meaning and cannot be substituted with "and" unless such interpretation is necessary to avoid absurdity, inconsistency, or defeat legislative intent. In the present case, neither Rule 16 of the Rules nor Section 35(7) of the Ordinance contains any language requiring the prescribed investment thresholds to be maintained simultaneously in both the Shareholders' Fund and the Statutory Fund; rather, the repeated use of the word "or" in both the parent provision and subordinate legislation manifests the clear legislative intent to treat the two funds as alternative bases for compliance. Had the legislature intended cumulative compliance, it would have expressly used the conjunctive expression "and" or language such as "in each of the shareholders' fund and statutory fund", and the deliberate omission of such language must be given legal effect in accordance with the settled canon that every word used by the legislature is intentional and cannot be treated as superfluous. Furthermore, subordinate legislation cannot be interpreted in a manner that enlarges the scope of the substantive obligation prescribed by the parent statute; therefore, Rule 16 of the Rules must be interpreted harmoniously with Section 35(7) of the Ordinance, and any interpretation requiring simultaneous compliance in both funds would amount to impermissibly rewriting both provisions by substituting the word "or" with "and".

15. In view of the above, the Bench believes that the interpretation adopted by the Respondent therefore suffers from a manifest legal infirmity, as it imposes an additional obligation that neither flows from the plain language of Section 35(7) of the Ordinance nor from Rule 16 of the Rules. By construing the disjunctive expression "or" as imposing a conjunctive obligation, the Respondent has expanded the




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scope of the statutory requirement beyond the legislative mandate. Consequently, the finding that the Appellant was required to independently satisfy the 30% and additional 10% investment thresholds in both the Shareholders' Fund and the Statutory Fund is contrary to the plain language of the governing provisions and is liable to be *set aside*.

16. In view of the above, the Impugned Order is not sustainable; therefore, we hereby *set aside* the Impugned Order and the SCN. Accordingly, the instant appeal is admitted and allowed without any order as to costs.

17. 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.


(Muhammad Ali Farid Khwaja)
Commissioner


(Zeeshan Rehman Khattak)
Commissioner

Announced on: 04 JUN 2026