



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 124 of 2020

M/s. AKD Securities Limited

...Appellant

Versus

Executive Director, Adjudication-I, SECP, Islamabad

...Respondent

Date of hearing:

March 13, 2025

Present:

For the Appellant:

1. Mr. Muhammad Farid Alam, Chief Executive Officer
2. Mr. Zafar Ahmad
3. Mr. Atta-ur-Rehman
4. Mr. Danish Aziz

For the Respondent:

1. Mr. Mubasher Saeed Saddozai, Executive Director, Adjudication-I, SECP
2. Mr. Mahboob Ahmed, Additional Director, Adjudication-I, SECP
3. Mr. Muhammad Akram Farooka, Assistant Director, Adjudication-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 124 of 2020 filed by AKD Securities Limited (the Appellant) under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 (the SECP Act) against Order dated September 15, 2020 (the Impugned Order) passed by the Executive Director Adjudication-I SECP, (the Respondent) under Section 40A of the SECP Act read with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the Regulations).
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 (the PSX) and licensed as a securities broker. The inspection was initiated against the Appellant vide inspection notice dated December 17, 2019 (the



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Inspection). The scope of Inspection was to review and check compliance with applicable AML/ CFT Regulatory Framework including the Regulations and other related Circular, Notifications and Directives etc. The Inspection period was from September 1, 2019 to November 30, 2019. The Inspection was conducted by the Joint Inspection Team of the Pakistan Stock Exchange, Central Depository Company and National Clearing Company of Pakistan Limited (the JIT). The Inspection revealed *inter alia* the following non-compliances;

- i. The Appellant failed to provide missing documents of a charitable trust, hence violating the requirement of Regulation 6(4) of the Regulations regarding Customer Due Diligence (CDD). This Regulation requires that a Regulated person shall obtain such documents from different types of customers as provided in Annexure-I .of the Regulations.
 - ii. The Appellant failed to verify the beneficial ownership of one student. No tax returns/wealth statement of the student was produced. Hence violated the requirements of Regulation 6(3) (c) of the Regulations.
 - iii. The Appellant had failed to conduct appropriate due diligence to identify the identity of natural persons in the matter of three corporate clients, therefore, violated the requirements of 7(1)(b) of the Regulations.
 - iv. In violation of Regulation 3(1)(a) of the Regulations, the Appellant failed to assign an appropriate risk rating to a politically exposed person (PEP). The Appellant also failed to conduct Enhanced Due Diligence (EDD) of its customer, hence violated the requirement of Regulations 9(4) and 10(3) of the Regulations.
 - v. The Appellant failed to verify the identification documents of its clients through NADRA Verisys, hence violating the requirement of Regulation 6(4) and Annexure-I (note i) of the Regulations.
 - vi. The Appellant failed to produce evidence of employment or salary slip for an employee and a doctor in compliance of Regulation 6(4) and Annexure-I (note ii) of the Regulations.
 - vii. The beneficial ownership record was only available in account opening form and no back-office record was available. Therefore, screening of customers was not possible. The Appellant failed to demonstrate an effective screening mechanism for direct and indirect screening of individuals against the list of proscribed persons at the time of inspection therefore, it was found non-compliant with Regulation 4(a) read with Regulation 13(7) of the Regulations.
3. In light of the above-mentioned violations, the Respondent issued a Show Cause Notice dated May 19, 2020 (the SCN) to the Appellant. The Appellant submitted a written reply to the SCN vide letters dated July 3rd and 22nd of 2020. A hearing in the matter was held on July 17, 2020. The Respondent concluded



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the SCN proceedings and imposed a penalty of Rs. 875,000/- (Rupees Eight Hundred and Seventy-Five Thousand only).

4. The Appellant has preferred this appeal *inter alia* on the grounds that several of the client accounts in question, including that of a student and a charitable trust, were opened before the applicable Know Your Customer (KYC) and CDD requirements were introduced and further stated that the trust account was opened in 2008 and the student account in 2006, at a time when there was no obligation to collect financial statements or income verification documents. The Appellant argued that imposing penalties for non-compliance with regulations that did not exist at the time of account opening is unjustified. The Appellant further stated that the Securities and Exchange Commission of Pakistan (the Commission) accepted its explanation for a housewife's account not having income documents but failed to apply the same reasoning to a similar case involving a student. The Appellant emphasized that the student's trading activity remained within defined thresholds until September 2019 and that documents were collected once the threshold was crossed. The Appellant further contended that there was no requirement to obtain income tax returns or wealth statements earlier, and thus, no violation occurred. The Appellant argued that the three trusts highlighted in the inspection were not private trusts with identifiable beneficiaries but public welfare organizations whose beneficial ownership lies with the general public.
5. Moreover, the Appellant stated that the identity documents of all trustees were properly recorded at the time of account opening, and the required documentation was duly submitted during inspection. As such, the Appellant argued that it had complied with Regulation 7(1)(b) of the Regulations and no penalty should be levied. The Appellant further stated that the client identified by the Commission as a PEP was a retired Lieutenant General, who no longer held any public office or influential position at the time of account opening and that according to the Appellant's internal AML Policy, retired officials are not classified as PEPs. Furthermore, the Appellant asserted that the client's funds were fully verified and substantiated, and therefore, the failure to categorize the individual as a PEP or conduct EDD was in accordance with the Appellant's risk-based approach and not a regulatory violation. The Appellant stated that it was unable to perform NADRA Verisys of the clients because NADRA had not granted access to brokers, including the Appellant to its system, despite formal requests. In the absence of access, the Appellant took alternative measures, such as notarizing CNICs and implementing biometric verification, which the Commission itself recognizes as a valid substitute. The Appellant argued that penalizing it for a systemic issue beyond its control is unwarranted. The Appellant stated that in both cases highlighted for missing employment verification documents, the required documentation had



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either been submitted initially or was inadvertently omitted due to a scanning mix-up, which was later rectified.

6. The Appellant further emphasized that these were genuine administrative oversights and not instances of deliberate non-compliance. The Appellant stated that while beneficial ownership details were maintained in physical account opening files, they were not entered into the back-office system due to technical limitations in the software provided by a PSX-approved vendor. Once the software was updated in December 2019, the Appellant began inputting the data as required. The Appellant contended that this was not a willful omission but a system-related constraint and should not be penalized, especially when the regulation did not explicitly mandate such input at the time.
7. The Respondent rebutted the grounds of Appeals and put forth the arguments that during the review, violations of the Regulations have been observed. The Respondent stated that the Appellant failed to furnish the financial statements of a Charitable Trust Fund, which had custody of Rs. 11.47 million. Although the Appellant claimed to possess the documents, they were not provided during the Inspection. The Respondent emphasized that the client was identified as a Trust and, based on the trust's governing documents indicating the ability to receive donations, should have been treated with enhanced scrutiny under the regulations. The absence of financial statements was considered a contravention of Regulation 6(4) read with Annexure-I of the Regulations. The Respondent stated that, while no issue was raised in the case of the housewife client, the student's account showed trading activity of Rs. 629 million in purchases and Rs. 627 million in sales. The Appellant failed to obtain adequate documentation of beneficial ownership or source of income, which was deemed a serious lapse considering the magnitude of the transactions. The Respondent stated that the Appellant failed to properly identify and verify the natural persons with controlling interests in three legal person client accounts. While the Appellant provided Form A documents for two entities, the Respondent maintained that these were insufficient, as Form A only lists shareholders without establishing actual beneficial ownership. In the case of an International Broker Dealer client operating via SCRA, the Respondent held that the Appellant still bore responsibility for identifying the ultimate beneficial owners.
8. The Respondent further asserted that the Appellant misclassified a retired senior military official (who held Rs. 148.53 million in custody and conducted substantial trading) as a low-risk individual, despite his status as a PEP. As per both the Appellant's own AML Policy and the Regulations, the client clearly qualified as a domestic PEP and should have been subjected to EDD. The Respondent argued that the Appellant failed to assess money laundering and terrorism financing risks appropriately. The Respondent stated that the Appellant failed to complete NADRA Verisys checks for its clients,



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including legacy accounts. Despite inquiries, the Appellant could not provide a clear explanation or timeline for compliance. The Respondent stated that Regulation 6(4) read with Annexure-I(i) of the Regulations explicitly requires NADRA Verisys, and the Appellant's failure to comply constituted a breach of regulatory requirements. The Respondent further stated that in two client cases (an employee and a doctor), the Appellant did not provide evidence of income during the inspection. While documents such as salary certificates were submitted later in response to the SCN, this indicated that the documentation was either not collected at the appropriate time or was not properly maintained. Hence, the Appellant was found non-compliant with the Regulations.

9. The Respondent stated that the Appellant failed to incorporate beneficial ownership information into its back-office system during the review period, impairing its ability to screen clients against lists of proscribed or designated persons. Although the Appellant made updates in December 2019, this was after the inspection period, and therefore, the Appellant was found in violation of Regulations 4(a) and 13(7) of the Regulations. The Respondent stated that the Impugned Order is a well-reasoned, speaking order issued after full consideration of all facts, evidence, legal provisions, and the Appellant's submissions. The Respondent held that the penalty imposed was justified, proportional, and in accordance with the Regulations. The Respondent prayed that the Impugned Order be upheld in its entirety and the appeal filed by the Appellant be dismissed, in the interest of justice and regulatory compliance.
10. The Appellate Bench (the Bench) has heard the arguments of both parties and perused the record. The Bench notes that the Appellant, being a regulated entity, was under a continuing obligation to comply with the AML/CFT Regulations in both letter and spirit. The Bench finds that the Appellant's contention regarding the retrospective application of KYC/CDD requirements to accounts opened prior to the promulgation of the applicable regulations is misconceived. It is well-settled that AML/CFT obligations impose an ongoing duty upon regulated persons to periodically review and update customer due diligence in line with evolving regulatory requirements, particularly where risk thresholds are crossed. Therefore, the Appellant's failure to ensure complete and up to date documentation, even for legacy accounts, constituted a deviation from applicable standards. The argument that there was no intent or *mens rea* is irrelevant, as regulatory compliance requires strict adherence regardless of intent.
11. With respect to the trust accounts, the Bench observes that the Appellant's explanation that the concerned trusts were public welfare organizations, does not exempt it from the obligation to identify beneficial ownership and conduct enhanced due diligence. Trusts, including not-for-profit entities, are recognized under international and domestic AML frameworks as inherently high-risk, and the absence

31st Appellate Bench

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of timely submission of financial records and related documentation constituted a contravention of Regulation 6(4) of the Regulations. The Bench also notes that the Appellant's classification of a retired military official as a non-PEP was inconsistent with the definition provided under Regulation 2(1)(t)(ii) of the Regulations. While the internal AML Policy adopted by the Appellant failed to correctly categorize such individuals as PEP, the failure to conduct Enhanced Due Diligence in this case was nonetheless a regulatory lapse.

12. The Bench further notes that the Appellant's inability to record beneficial ownership data in its back-office system until December 2019, due to software limitations, does not absolve it of compliance. Regulated entities are required to ensure that their systems are adequately equipped to meet regulatory demands. However, the Bench acknowledges that the relevant data had been maintained in physical form and was incorporated into the digital system upon its upgrade. Furthermore, the Bench accepts the Appellant's submission that it was unable to access NADRA Verisys despite making formal requests, and that alternate verification measures such as notarized CNICs and biometric authentication had been implemented. These steps, though not a complete substitute for regulatory compliance, do reflect adherence and commitment of the Appellant to comply with the Regulations and mitigate the severity of the lapse.
13. In view of the foregoing, the Bench holds that the contraventions as identified in the Impugned Order stand established. However, keeping in view the mitigating circumstances, including the Appellant's subsequent rectification of certain deficiencies, operational constraints, and assurance to exercise greater vigilance in future, the Bench is inclined to take a lenient view in so far as the quantum of penalty is concerned. Accordingly, the Bench reduces the penalty imposed under the Impugned Order from Rs. 875,000/- to Rs. 400,000/-.
14. The Appeal stands **disposed of** in the above terms with no order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Mujtaba Ahmed Lodhi)
Commissioner

Announced on:

07 JUL 2025