



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 125 of 2020

Highland Securities (Pvt.) Limited

..... Appellant

versus

Executive Director, Adjudication Department-I, Adjudication Division, SECP

..... Respondent

Date of Hearing:

February 19, 2026

Present:

For the Appellant:

Omer Iqbal Khawaja, 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 shall dispose of Appeal No. 125 of 2020 filed by Highland Securities (Pvt.) Limited (the "Appellant"), against the Order dated September 15, 2020 (the "Impugned Order"), passed by the Executive Director, Adjudication Department-I, Adjudication Division, SECP (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act") read with Regulations 6(3)(c), 6(4), 6(5), 9(4), 10(1), 10(3), and 15(3) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "AML Regulations").


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2. Brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate (“TREC”) holder of Pakistan Stock Exchange Limited (“PSX”). An inspection was carried out by the Joint Inspection Team (“JIT”) comprising representatives of PSX, Central Depository Company of Pakistan Limited (“CDC”), and National Clearing Company of Pakistan Limited (“NCCPL”) for the period January 1 to March 31, 2020. The inspection revealed that the Appellant had, *prima facie*, committed the following violations of the AML Regulations:

- i. The Appellant failed to conduct periodic screening of its customers and failed to maintain documentary evidence thereof, in violation of Regulation 11(7) read with Regulation 4(1) and Regulation 15(3) of the AML Regulations.
- ii. The Appellant failed to document justification for categorizing customers as “low risk”, thereby contravening Regulation 11(2) of the AML Regulations.
- iii. The Appellant failed to conduct Enhanced Due Diligence (EDD) in respect of high-risk customers, including failure to obtain and retain contemporaneous evidence of source of income and wealth, in violation of Regulation 9(4)(b) read with Regulation 6(4) of the AML Regulations.
- iv. The Appellant failed to ensure ongoing monitoring of customer transactions, particularly where transaction activity and custody values were inconsistent with declared customer profiles, in contravention of Regulation 6(3)(c) of the AML Regulations.
- v. The Appellant failed to conduct NADRA *Verisys* verification at the time of establishing the business relationship, and instead undertook such verification after initiation of inspection, in violation of Regulation 6(4) read with Regulation 6(5) and Annexure-I of the AML Regulations.
- vi. The Appellant failed to maintain an effective mechanism to monitor expiry of customers’ CNICs, in violation of Regulation 6(4) of the AML Regulations.



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- vii. The Appellant failed to identify and treat a customer as a Politically Exposed Person (PEP) and failed to apply EDD measures applicable thereto, in contravention of Regulations 10(1), 10(3), and 9(4) of the AML Regulations.
 - viii. The Appellant incorrectly classified non-resident customers as “low risk”, despite its own AML/CFT policy requiring such customers to be treated as high risk, in violation of Regulation 6(8) read with Regulation 4(1) of the AML Regulations.
 - ix. The Appellant failed to obtain and retain contemporaneous source-of-income documentation, and arranged such documentation after intimation of inspection, in violation of Regulation 6(4) read with Regulation 13(1) of the AML Regulations.
 - x. The Appellant failed to maintain proper AML/CFT records, including records evidencing screening, monitoring, and due diligence measures, in contravention of Regulation 15(3) of the AML Regulations.
3. In view of the aforesaid observations, the Respondent issued a show-cause notice dated July 13, 2020 (the “SCN”) to the Appellant. The Appellant submitted a written reply along with supporting documents on August 22, 2020. Hearing in the matter was conducted on September 2, 2020. Upon consideration of the material on record, the Respondent held that although substantial supporting documents had been furnished by the Appellant, the same did not sufficiently establish compliance at the relevant time. Accordingly, the Respondent concluded that violations of Regulations 6(3)(c), 6(4), 6(5), 9(4), 10(1), 10(3), and 15(3) of the AML Regulations stood established and, in exercise of powers conferred under Section 40 of the SECP Act, imposed a penalty of Rs. 250,000 (Rupees Two Hundred Fifty Thousand only) upon the Appellant, along with directions to strengthen its AML/CFT systems and controls.
4. The Appellant has preferred the instant Appeal on the following grounds, *inter-alia*, that the inspection conducted pursuant to the notice dated April 16, 2020, covering the review period from January 1, 2020 to March 31, 2020, had been duly responded to and all observations raised by the JIT were comprehensively clarified through detailed written


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replies supported by documentary evidence. The Appellant further submitted that it had been regularly conducting periodic screening of customers, joint account holders, and authorized persons against the relevant United Nations Security Council lists and other prescribed lists, and evidence of such screening had been duly provided, however, the same was ignored by the Respondent without lawful justification. It was further submitted that out of ten customers selected by the JIT, nine were assessed as low-risk, and despite the allegation that reasons were not recorded, the Appellant had in fact maintained internal risk assessments in line with its client profile and risk-based approach.

5. The Appellant further contended that in respect of the sole 'high-risk' customer, complete due diligence documentation, including salary slips, employment credentials, visiting card, and utility bills, had been furnished, demonstrating compliance with AML requirements, yet the same was disregarded. It was also submitted that the observation relating to expired CNICs of twelve active customers was factually incorrect, as clients had been intimated prior to CNIC expiry, updated CNICs were obtained and uploaded, and documentary proof thereof was annexed with the reply to the SCN.
6. The Appellant further submitted that NADRA *Verisys* verification of all ten selected customers had been conducted on May 13, 2020, in compliance with Regulations 6(4) and 6(5) of the AML Regulations, thereby fully satisfying the requirement of verification before or during the establishment of the business relationship. It was contended that in respect of a customer initially marked as low-risk despite being in government service, the risk classification was subsequently revised to 'high-risk' upon obtaining updated income tax returns and proof of funds, and this corrective action had been duly communicated to the JIT and the Respondent. Similarly, it was submitted that the observation regarding a customer employed in Saudi Arabia was misconceived, as it was based on the allegation that the said client, being a non-resident citizen, ought to have been categorized as a 'high-risk' customer. It was contended that no opportunity was afforded to the Appellant to explain the client's employment status, risk profile, or the basis for the applied risk classification, thereby, resulting in denial of a fair hearing on this aspect.
7. The Appellant further submitted that neither the JIT nor the Respondent had identified any specific or persistent non-compliance, and no willful contravention, *mens rea*, or criminal



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intent had been established, which was a prerequisite for imposition of penalty. It was contended that the penalty imposed was harsh, excessive, and disproportionate, particularly in view of the limited client base and the fact that all clients were well-known to the Appellant's management. Lastly, the Appellant prayed that the Impugned Order may kindly be set aside.

8. In response to the submissions of the Appellant, the Respondent, *inter alia*, submitted that although the Appellant furnished fortnightly screening reports and screenshots of searches relating to the identification of proscribed individuals with the United Nations Security Council consolidated lists of proscribed persons, the same did not establish that periodic screening as required under the AML Regulations was conducted, as the screenshots lacked verifiable dates and time stamps evidencing continuous and timely screening. The Respondent further submitted that while KYC/CDD forms and checklists of ten customers classified as 'low-risk' were provided, such documentation was furnished only after the inspection and, therefore, did not rectify the deficiencies observed during the inspection period. It was contended that in the case of one 'high-risk' customer, the Appellant had failed to provide the required salary slip at the time of inspection, and although one was subsequently submitted with the reply to the SCN, it pertained to a period prior to the inspection period and thus did not satisfactorily address the concern raised.

9. The Respondent further submitted that with respect to expired CNICs of twelve active clients, the Appellant managed to furnish renewed CNICs for only six clients, while no evidence was provided for the remaining six, which established partial non-compliance. The Respondent further submitted that the Appellant's contention regarding non-installation of NADRA *Verisys* on account of a low client base was untenable, as verification through NADRA *Verisys* was a statutory requirement, and reliance on CNIC copies or thumb verification through NCCPL systems did not fulfill the regulatory obligations. It was further contended that the Appellant had incorrectly marked "No" in the KYC/CDD checklist for a senior government official in respect of PEP status and had wrongly categorized the client as 'low-risk', which constituted misclassification, and subsequent revision of risk categorization did not cure the initial non-compliance. Similarly, the Appellant failed to classify a non-resident Pakistani client as 'high-risk', contrary to the AML Regulations.



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10. The Respondent submitted that the SCN was issued after due consideration of the Appellant's submissions at the inspection stage and that the Impugned Order was a reasoned and speaking order passed after examining the record and applicable legal provisions. It was further submitted that the Appellant was afforded sufficient opportunity of hearing and representation in accordance with the principles of natural justice and that the plea of a low client base was legally irrelevant, as complete AML/CFT compliance was mandatory for all licensed entities.
11. The Appellate Bench (the "Bench") has heard the arguments of both the parties and perused the record. The Bench notes, at the outset, that the Appellant, being a licensed securities broker, was under a continuing statutory obligation to comply with the AML Regulations, and compliance with such obligations is fundamental to the integrity, transparency, and stability of the capital market.
12. The Bench is mindful of the fact that the enforcement under the AML/CFT regime must be proportionate, risk-sensitive, and calibrated in a manner that promotes sustained compliance. International best practices in financial regulation, including risk-based supervision and enforcement, recognize that while deterrence is necessary, regulators should also take into account the size, complexity, and risk profile of regulated entities, as well as their conduct following identification of deficiencies. In particular, for smaller market participants with limited operations, corrective engagement and proportionate sanctions are regarded as effective tools to foster long-term compliance without imposing undue regulatory burden.
13. In the present case, the record reflects that the Appellant is a small brokerage house with a limited client base and a modest operational footprint. The Bench further notes that the Appellant is presently operating only as a "trading-only" broker and does not undertake clearing or settlement functions. In view thereof, the scope of the Appellant's business activities stands materially restricted, and its exposure to transaction-based AML/CFT risks, particularly those associated with the handling of client funds and securities is correspondingly reduced, though not entirely negated. This factual position is relevant in

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assessing both the severity of the contraventions and the proportionality of the enforcement action.

14. The deficiencies recorded in the Impugned Order primarily pertains to lapses in core compliance areas, including delayed NADRA *Verisys* verification, deficiencies in customer documentation, and weaknesses in customer risk classification and record maintenance. These lapses, viewed cumulatively, constituted non-compliances with the mandatory provisions of the AML Regulations at the relevant time and were rightly taken cognizance of by the Respondent. However, the Bench also notes that, owing to the absence of direct access to NADRA *Verisys* at that time, the Appellant resorted to alternate verification mechanisms. While such measures do not retrospectively cure the contraventions, they do reflect a, *bona fide*, attempt on the part of the Appellant to discharge its regulatory obligations within its operational constraints.
15. The record further demonstrates that subsequent to the inspection, the Appellant undertook tangible corrective measures to address the identified deficiencies and to strengthen its compliance framework. Although post-inspection remedial actions do not condone past violations, they are a relevant consideration in assessing the Appellant's regulatory conduct, and willingness to comply with the regulatory framework. The absence of any material on record indicating deliberate concealment, systemic abuse, repeated defiance of regulatory directions, or misuse of the financial system weighs in favour of a lenient enforcement action.
16. The Bench observes that a sound and effective regulatory regime must strike a careful balance between enforcement and facilitation. Sanctions must commensurate with the gravity of the violations and the risk posed, and should not be punitive to the extent that they impose an undue burden on regulated entities, particularly where the entity's operations are limited, the risk profile is low, and corrective steps have been undertaken. In the facts and circumstances of the present case, and considering the Appellant's small size, trading-only status, limited risk exposure, and post-inspection compliance efforts, the Bench is of the view that the objectives of deterrence and regulatory discipline would be adequately served through a reduced and proportionate penalty.


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17. In view of the foregoing, the quantum of penalty imposed therein calls for moderation. Accordingly, the Impugned Order is modified to the extent that the penalty is reduced to Rs. 125,000/- (Rupees One Hundred and Twenty-Five Thousand only).
18. The Appeal is disposed of in the above terms with no orders as to costs.

(Zeeshan Rehman Khattak)
Commissioner

(Imtiaz Haider)
Commissioner

Announced on:

02 MAR 2026