



# Securities and Exchange Commission of Pakistan

## BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 14 of 2020

Azee Securities (Pvt.) Limited

...Appellant

Versus

Executive Director/HOD, Adjudication -1

...Respondent

Date of hearings:

May 10, 2024

Present:

For the Appellant:

1. Ghazi Naseem

For the Respondent:

1. Mr. Mahboob Ahmad, Additional Director, Adjudication-I, SECP
2. Mr. Muhammad Akram Farooka, Assistant Director, Adjudication-I, SECP

## ORDER

1. This Order shall dispose of Appeal No. 14 of 2020 filed by Azee Securities Private Limited (the "Appellant") through Mr. Ghazi Naseem (the "Authorized Representative") under Section



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33 of the Securities and Exchange Commission of Pakistan Act, 1997 (the “SECP Act”) against the Order dated December 30, 2019 (the “Impugned Order”) passed by the Executive Director/Head of Department Adjudication-I (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 certification holder of the Pakistan Stock Exchange Limited (the “PSX”). The Securities and Exchange Commission of Pakistan (the Commission) conducted an inspection of the Appellant with the scope to review and check compliance with the applicable AML/CFT Regulatory framework including the Regulations and other related circulars, notification and directives. During the inspection a number of instances were observed where the Appellant had failed to comply with the applicable provisions of the Regulations including regulation 4(a), 6(5)(a), 13(7) and clause (i) of annexure-I of regulation 6(4) of the Regulations. In light of these violations, the Show-Cause Notice dated December 16, 2019 (the “SCN”), was issued to the Appellant, the reply of which was not received within due time. After examining the submissions and considering the facts, the Respondent, in exercise of powers conferred under Section 40A of the SECP Act, imposed a penalty of Rs. 300,000/- on the Appellant for the aforementioned contraventions of the Regulations.
3. The Appellant has filed this Appeal on several grounds, including the assertion that the Impugned Order lacks a proper appreciation of facts or law. The Counsel for the Appellant contends that the Impugned Order fails to explain how the Appellant violated the regulatory framework established by the relevant rules and regulations well before the enactment of those rules. The Counsel argued that the Impugned Order is non-speaking and does not specify any law or regulation that the Appellant has breached and has been penalized for. It was submitted by the Counsel that all requirements were fulfilled following the enactment of new guidelines by SECP in 2019. The Counsel for the Appellant also informed the Bench that the Appellant had implemented an automated screening software available in the market and had further

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deployed an automated AML/CFT screening software to comply with pre-opening screening procedures. Additionally, he mentioned that the Appellant conducted a thematic review on samples of the main account holders, joint holders, nominees, authorized persons, and the Board of Directors of the entities, and conducts daily screening procedures against UNSCR and NECTA lists through their database, which was shared with the Respondent. Furthermore, the Appellant's Counsel argued that the Respondent incorrectly observed non-compliance with NADRA Verisys prior to account openings, emphasizing that neither the Appellant nor any other Regulated Person had access to NADRA Verisys prior to July, 2019. The Counsel informed that the Appellant had already revised their framework in accordance with AML/CFT Regulations, 2019 and procedures related to automated screening mechanisms. The Appellant requests the Bench to adopt a lenient view, taking into consideration the aforementioned contextual factors.

4. The Respondent countered the grounds of the Appeal and proffered arguments. The Respondent emphasized that the Impugned Order was issued in strict accordance with the law and after thorough consideration of the facts presented in this case. He asserted that the Appellant's explanations and arguments have been comprehensively addressed in the Impugned Order, with adequate reasons provided for the rejection of these contentions. The Respondent reiterated that explanations provided by the Appellant were deemed insufficient in addressing the regulatory breaches that led to the issuance of the Impugned Order. The Respondent also argued that the Appellant lacked adequate controls for screening individuals against UNSC/NACTA lists, which are crucial for identifying proscribed persons. Additionally, it was brought to the attention of the Bench that there was no database in place for joint accounts, nominees, authorized persons, Board of Directors, trustees, or beneficiaries, which compromised effective client monitoring. Furthermore, it was contended by the Respondent that the Appellant failed to validate IDs through NADRA Verisys in 15 highlighted cases, thereby breaching AML Regulation 6(4)- even in instances where NADRA Verisys was unavailable, the Appellant did not make efforts to implement alternative measures such as biometric identification. The Respondent concluded by reiterating that while the

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Appellant may argue procedural improvements and subsequent compliance efforts, the regulatory lapses identified during inspection were serious and warranted the issuance of the Impugned Order.

5. The Bench has heard the arguments of both the parties and perused the record. The Bench acknowledges the Appellant's implementation of the automated screening software and compliance efforts, as well as the thematic review conducted on various account holders and entities. However, the Appellant was obligated to fully comply with the relevant regulations, adhering to their provisions in both letter and spirit. While the Bench appreciates subsequent efforts towards compliance, they do not absolve the Appellant of past violations. The Bench anticipates that moving forward, the Appellant will demonstrate heightened vigilance in adhering to AML law. In view of the foregoing, the Bench, considers it justified to reduce the penalty to Rs. 200,000/-. The instant Appeal is disposed of on above terms without any order as to costs.

**(Abdul Rehman Warraich)**

Commissioner

**(Mujtaba Ahmad Lodhi)**

Commissioner

Announced on: 12 JUL 2024