



# Securities and Exchange Commission of Pakistan

## **BEFORE THE APPELLATE BENCH**

In the matter of

**Appeal No. 18 of 2020**

M/s. Royal Securities (Private) Limited

..... Appellant

versus

Executive Director/HOD, Adjudication Department-I, SECP

.....Respondent

**Date of hearing:**

February 19, 2026

**Present:**

**For the Appellant:**

Mr. Qazi Ali Kamal, 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. 18 of 2020 filed by Royal Securities (Private) Limited (the "Appellant") against Order dated December 24, 2019 (the "Impugned Order"), passed by the Executive Director/HOD, Adjudication Department-I, SECP (the "Respondent") under the provisions of the SECP (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "AML Regulations") read with Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act").
2. The brief facts of the case are that the Appellant is a Trading Right Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange (PSX) and also holds membership of the



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Pakistan Mercantile Exchange (PMEX). An inspection of the Appellant as PSX broker was conducted by a Joint Inspection Team (“JIT”) in pursuance of Notice No. T037 dated November 06, 2019 covering a review period of 03 months starting from August 01, 2019 to October 31, 2019. Further, inspection of the Appellant as a future broker was initiated vide Notice No. PMEX/RAD/823/2019 dated November 01, 2019 covering the review period from July 01, 2018 to October 31, 2019. The inspection team observed a number of instances where the Appellant *prima facie*, failed to comply with the provisions of AML Regulations *inter alia*, including the non-existence of a customer database for screening purposes, failure to obtain documentary evidence for the source of wealth and perform Enhanced Due Diligence (EDD) for high-risk accounts, non-verification of the identity of a customer and beneficial owner and failure to validate identity documents through NADRA *Verisys* for accounts opened prior to June 2019. Consequently, a Show Cause Notice dated December 13, 2019 (the “SCN”), was issued to the Appellant. After considering the written submissions and affording an opportunity of hearing on December 20, 2019, the Respondent passed the Impugned Order, imposing a penalty of Rs. 300,000/- for the established violations.

3. The Appellant preferred the instant appeal, *inter alia*, on the following grounds:
- i. The findings recorded under the Joint Inspection Regulations, 2015 (the “JI Regulations”) could not have been enforced by the Respondent under Regulation 21 of JI Regulations, as the said provision empowers only the respective Self-Regulatory Organizations (“SROs”) to take enforcement action under their own regulatory frameworks. The Respondent could not assume jurisdiction under Section 40A of the SECP Act, hence, the Respondent acted beyond its mandate.
  - ii. During the hearing held on December 20, 2019, the Appellant submitted that a centralized database for weekly screening of ultimate beneficial owners had already been established and complete screening of all customers and their associates by January 15, 2020 were undertaken.
  - iii. Requiring long inactive customers to provide source of funds is against prevailing capital market norms. Their accounts remained open with NCCPL only due to non-zero securities balances and the Appellant attempted to regularize documentation or facilitate transfer of securities prior to closure and has categorized such customers as high-risk as a precautionary measure.



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- iv. The requisite beneficial ownership document of a student customer, whose investment funds were gifted by his mother, was subsequently located and provided to the Respondent *vide* letter dated January 15, 2020, though it was not available at the time of inspection.
  - v. NCCPL was registered as a Centralized Know Your Customer Organization (CKO) in June 2019 and commenced NADRA *Verisys* for new customers. The Appellant did not duplicate the process for existing customers to avoid redundancy, particularly in a depressed market. After provision of *Verisys* devices by NCCPL, the Appellant sought time till January 15, 2020 to complete verification of old customers. Imposition of penalty prior to the agreed deadline is therefore unwarranted.
  - vi. All non-compliances were rectified within the committed timeline of January 15, 2020, which was duly acknowledged by the Respondent, nevertheless, the Impugned Order was issued and penalty was imposed thereupon, rendering the Impugned Order premature and unsustainable in law.
  - vii. The Appellant prayed for setting aside of the Impugned Order
4. In response to the Appellant's submissions, the Respondent, *inter alia*, submitted that:
- i. That the specific scope thematic review was undertaken pursuant to Regulation 19(ee) of the JI Regulations and upon directions of SECP/Commission. The findings of inspection/review were duly forwarded to the Commission as well as the same were communicated to the Appellant. The contention that enforcement action does not fall within the Commission's regulatory ambit is baseless. The Appellant was non-compliant during the review period, therefore, imposition of penalty under Section 40A of the Act is lawful and justified.
  - ii. During the hearing, the authorized representative of the Appellant conceded that the centralized database for screening of beneficial owners was established only after the inspection observations were recorded. While it was represented that screening of customers and associates would be completed by January 15, 2020, neither such database existed nor had any screening been conducted as on the date of inspection, in violation of Regulations 4(a) and 13(7) of the AML Regulations during the relevant period.
  - iii. The Appellant failed to obtain documentary evidence establishing source of wealth and did not perform Enhanced Due Diligence (EDD) for four individual customers, in violation of Regulation 9(4)(b) of the AML Regulations. Further, customer and beneficial ownership information was not kept up to date,



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particularly in accounts classified as high risk, contravening Regulation 13(3) of the AML Regulations.

- iv. The Appellant conceded that verification of the identity of the customer declared as a student, as well as of the beneficial owner, was not conducted at the time of account opening. The fact that documents were obtained only after the inspection observations were recorded does not cure the violation; such conduct constitutes a clear breach of Regulation 6(5) of the AML Regulations, which mandates verification at the time of establishing a business relationship or, at the latest, promptly thereafter.
  - v. Authorized representative of the Appellant admitted that validation of identity documents through NADRA *Verisys* was not carried out for accounts opened prior to implementation of CKO in June 2019. This is in contravention of Regulation 6(4) read with Annexure I of the AML Regulations, which requires validation through NADRA *Verisys*. The contention of duplication of effort is untenable, as the responsibility to conduct NADRA *Verisys* rests with the broker.
  - vi. The Order is a reasoned and speaking order addressing both factual and legal aspects. The submissions of the Appellant do not alter the established violations, hence, the Respondent maintains that the penalty is warranted.
5. The Appellate Bench (the "Bench") has carefully perused the record of the case, including the SCN, the Impugned Order, the written submissions of the parties, and the material available on record. During the course of hearing, the Appellant did not advance detailed arguments on the merits of the case and submitted that it is undergoing an inquiry before the Federal Investigation Agency ("FIA") in relation to a separate matter. The Appellant submitted that a certified copy of the FIA Order will be furnished to the Bench, however, no such copy/document or any related information is subsequently provided to the Bench.
6. The Bench notes that the Appellant, as a TREC holder and licensed securities broker, has a statutory obligation to ensure strict compliance with the AML Regulations, which are designed to protect the integrity of Pakistan's financial markets. Before addressing the merits of the violations established on record, the Bench considers it appropriate to first dispose of the jurisdictional objection raised by the Appellant. The Appellant contended that the Commission lacked the authority to impose a penalty on the basis of findings of the JIT, asserting that enforcement power under Regulation 21 of the JI Regulations vest exclusively with the SROs. The Bench finds this contention to be legally misconceived as the JI



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Regulations merely constitute a procedural framework governing the mechanics and conduct of joint inspections carried out by teams constituted by the SROs under the supervision of the Commission's Oversight Committee, they do not in any matter restrict or curtail the Commission's independent statutory enforcement powers. Further, the violations in the present case pertain to non-compliances with the AML Regulations, which are subordinate legislation promulgated by the Commission under the Anti-Money Laundering Act, 2010 (the "AML Act") read with the SECP Act. The Commission is the competent and designated supervisory authority responsible for assuring AML/CFT compliance by capital market intermediaries under the AML Act, and its power to impose penalties under Section 40A of the SECP Act constitutes an independent statutory power that operates independently, irrespective of the mechanism through which the underlying non-compliances was identified. Accordingly, the jurisdictional challenge raised by the Appellant is without merit and is hereby dismissed.

7. The Bench observes that the core of the Appellant's case on merits rests on remedial actions undertaken after the inspection identified deficiencies. The Appellant has admitted that the customer screening database was not in place at the time of inspection, the source of wealth documentation for certain high-risk clients was not available on record and that identity verification for a customer was not conducted at the inception of the business relationship. The Appellant's contention that certain customers were "inactive" or "inaccessible" does not constitute a valid legal defence for failure to comply with the mandatory EDD and record-keeping requirements of the AML Regulations, particularly in respect of accounts classified as high risk, as the obligations under the AML Regulations are unconditional in their application and attach to all accounts regardless of their transactional status. Likewise, the argument that NADRA *Verisys* verification would amount to duplication of effort is untenable. The obligation to verify customer identity is cast squarely upon the regulated entity itself, and cannot be discharged or delegated merely on the ground that a centralised KYC organisation conducts a similar exercise for newly opened accounts.
  
8. The Bench is of the considered view that subsequent remedial measures do not retrospectively cure or absolve the contraventions established at the time of inspection. The AML/CFT regulatory framework requires proactive and contemporaneous compliance, not reactive measures taken after regulatory intervention. The Bench finds that the Impugned Order is a



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well-reasoned and speaking order and the Respondent rightly and lawfully concluded that the Appellant had not implemented an effective AML/CFT compliance framework, and the penalty of Rs. 300,000/- was imposed in the exercise of the Respondent's statutory authority after affording the Appellant a full and fair opportunity of hearing. The Bench accordingly finds no legal or factual basis to interfere with, modify, or reduce the penalty imposed *vide* the Impugned Order, which is hereby upheld in its entirety and the instant Appeal is dismissed with no order as to costs.

9. 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 the law.

(Zeeshan Rehman Khattak)  
Commissioner

(Imtiaz Haider)  
Commissioner

Announced on:

**11 MAR 2026**