



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 18 of 2023

First National Equities Limited

...Appellant

Versus

Director/HOD, Adjudication – 1

...Respondent

Date of hearing:

17th October, 2024

Present:

For the Appellant:

Mr. Arslan Tahir (Company Secretary)

For the Respondent:

1. Mahboob Ahmed (Additional Director, Adjudication-I, SECP)
2. M. Faisal (Assistant Director Adjudication-I, SECP)
3. Zenia Rahat (Management Trainee Adjudication-I, SECP)

ORDER

1. This Order shall dispose of Appeal No. 18 of 2023 filed by First National Equities Limited (the “Appellant”) through its Company Secretary Mr. Arslan Tahir (the “Authorized Representative”) under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 (the “SECP Act”) against the Order dated December 15, 2022 (the “Impugned Order”) passed by the Director Adjudication-I (the “Respondent”) under Section 6(A)(2)(h) of the Anti-Money Laundering Act, 2010 (“AML Act”) read with Rules 4(1) and 6(1) of



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the AML/CFT Sanctions Rules, 2020 (“AML Rules) and Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (“AML 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”). An investigation was initiated by the Joint Investigation Team (“JIT”) with the scope to review and check compliance with respect to the AML Regulations. During the inspection, a number of instances were observed where the Appellant had failed to comply with the applicable provisions, i.e. Regulations 11 and 13 of the AML Regulations. In light of these violations, a Show-Cause Notice dated 2nd September, 2022 (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 it was established that the Appellant had failed to identify the ultimate beneficial owners for three of its corporate clients, and subsequently the Respondent, in exercise of powers conferred under Section 6(A)(2)(h) of the AML Act imposed a penalty of Rs. 30,000/- on the Appellant for the aforementioned contraventions of the AML Regulations.
3. The Appellant filed this Appeal on several grounds, including the assertion that the Impugned Order lacks a proper appreciation of facts or law. The Authorized Representative for the Appellant contended that the Impugned Order penalized the Appellant despite the logical explanations rendered by the Appellant in its defence. Moreover, the Authorized Representative submitted that, as evident by the Appellant’s record, the Appellant was not only progressive but also responsive and effective. The Authorized Representative proceeded with the submissions before the Bench by asserting that the evidence for identification of each ultimate beneficial owner for all three corporate clients mentioned in the SCN was provided to the learned Respondent and that the process for identification of the ultimate beneficiaries was carried out in accordance with the forms accepted by the respective CRO (Company Registration Office) of SECP. Moreover, the *Verisys* authentication for each of the corporate clients and the beneficial owners was carried out with reference to the documents provided by the said client and accordingly, sent to the Respondent. Nonetheless, the Authorized Representative did admit that there was one instance which pertained to a client named Mr. Asif Shahzad, where details could not be provided since he did not provide updated details despite several reminders which fact was



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duly conveyed to the Respondent. The Authorized Representative contended that the Respondent had misread the Client Information Report (“CIR”) and for identification of ultimate beneficiaries the word “Self” was misinterpreted. It was submitted that the word “Self” had been rightly employed since the owner had identified himself as the beneficial owner already. It was asserted that considering the evidence provided in the form of documents, the employment of the word “Self” could not be made the basis of the penalty. The Authorized Representative also submitted that the Impugned Order erroneously iterated an incorrect CDC account number mentioned in the SCN which did not even pertain to the Appellant, and that this error had already been recognized and addressed by the Respondent through a letter dated October 13th, 2022. On the basis of these contentions the Appellant requested the Bench (the Bench) to set aside the Impugned Order and give any other relief that the Honourable Appellate Bench deems fit and appropriate, taking into consideration the aforementioned contextual factors.

4. The Respondent countered the grounds of the Appeal and proffered arguments. The Respondent, in response to the Appellant’s contention, emphasized that the Impugned Order was not only issued in strict accordance with the law but also after thorough consideration of the facts presented in this case. The Respondent asserted that the Appellant's contentions have been comprehensively addressed in the Impugned Order, with adequate reasons provided for the rejection of the same. The Respondent further highlighted that the Appellant had provided a CIR to establish ultimate beneficial ownership of corporate clients. However, the CIR identified the beneficial owner as "Self" and failed to explicitly specify the ultimate beneficial owners for the respective corporate clients. The Respondent asserted that in light of the afore-mentioned contentions, the Appellant had failed to establish ultimate beneficial ownership of its corporate clients as per the AML Regulations. Furthermore, in response to the Appellant’s submission regarding the Respondent addressing the error pertaining to the CDC account number, the Respondent submitted that the letter dated October 13th, 2022 provided the names of clients for further reference and information as opposed to addressing any error made.

5. The Bench has heard the arguments of both the parties and perused the record. The Bench is of the view that the Appellant was obligated to fully comply with the relevant AML Regulations, and that while the Appellant did provide certain documents, nonetheless, it

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was revealed that the beneficial owners were not identified specifically in the CIR. The Bench concluded that the Appellant failed to provide any document or evidence to establish the identity of the beneficial owner of its corporate clients, or to show that any reasonable measures were taken to do so, as required under Annex 1 of the AML Regulations. Furthermore, while Bench accepted that there had been a confusion regarding the CDC account number mentioned in the Impugned Order, it also noted that to clarify this, the Respondent did provide names for the respective accounts. In light of the foregoing discussion, the Bench acknowledged that the established violations were of grave nature, hence required a higher financial sanction. However, the Bench also noted that the Respondent had resorted to impose the least minimum penalty upon the Appellants. Therefore, the Bench finds no ground to interfere with the Impugned Order. Conclusively, The Bench decided to uphold the Impugned Order.

6. In view of the foregoing, the Bench, considers it justified to uphold the penalty to Rs. 30,000/-. The instant Appeal is dismissed on above terms without any order as to costs.

(Abdul Rehman Warraich)

Commissioner

(Mujtaba Ahmad Lodhi)

Commissioner

Announced On: **24 DEC 2024**