



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 26 of 2020

Pearl Securities Limited

.....Appellant

Versus

Executive Director, Adjudication – I, Adjudication Division, SECP

.....Respondent

Date of Hearing:

April 16, 2025

Present:

For the Appellant:

Mr. Imtiaz Haider, Authorized Representative

For the Respondent:

1. Mr. Sohail Qadri, HoD, Adjudication-I, SECP
2. Mr. Muhammad Akram Farooka, Assistant Director, Adjudication-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 26 of 2020 filed by Pearl Securities Limited (the Appellant), against order dated March 09, 2020 (the Impugned Order), passed by the Executive Director, Adjudication – I, Adjudication Division, SECP (the Respondent), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the Act).

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2. Brief facts of the case are that a thematic review (the Review) was conducted by a Joint Inspection Team (JIT) comprising representatives of the Pakistan Stock Exchange Limited (PSX), the Central Depository Company of Pakistan Limited (CDC) and the National Clearing Company of Pakistan Limited (NCCPL), to assess the Appellant's compliance with the requirements prescribed under the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the AML Regulations). The Review revealed that the Appellant, *prima facie*, had failed to ensure compliance with certain mandatory provisions of the AML Regulations. It was observed that the Appellant had not undertaken validation of the identity documents of its corporate clients, their directors, and authorized persons through the NADRA Verisys system, as required under Regulation 6(4) read with Note (i) of Annexure-I of the AML Regulations. Furthermore, the Review noted that the Appellant had not conducted adequate customer due diligence (CDD) in relation to one of its clients, who had been disclosed as a student residing with her parents. It was observed that no documentation had been maintained to identify or substantiate the beneficial ownership of the said client's account or to establish the source of funds, which amounted to a contravention of Regulations 6(3)(a) and 6(3)(c) of the AML Regulations.
3. In view of the aforesaid observations, the Respondent took cognizance of the matter and issued a Show-Cause Notice (SCN) dated February 3, 2020 to the Appellant. The Appellant was afforded an opportunity of hearing on February 28, 2020. During the course of the hearing conducted by the Respondent, the Appellant submitted that the *Verisys* system had not been implemented at its brokerage facility and that client identity verification had been carried out through the system of the NCCPL at the time of the 'Unique Identification Number' (UIN) generation. As regards the deficiency in CDD, the Appellant submitted that the client's mother, who was a medical practitioner operating a private clinic, had indemnified her daughter in respect of the trading account, and that the Appellant had relied upon its long-standing relationship with the client as the basis for not seeking further documentation. The Respondent found the Appellant's explanation to be unsatisfactory, noting that verification through NCCPL did not cover corporate clients, their directors, or authorized persons, as required under the AML Regulations. Additionally, no independent proof of income, such as a bank statement or tax return, was provided to substantiate the source of funds. Accordingly, the Respondent concluded the proceedings and imposed a penalty of Rs. 400,000 on the Appellant.



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4. The Appellant has preferred this Appeal, *inter-alia*, on the grounds that the penalty imposed on the Appellant was unwarranted, as the identity documents of corporate clients, their directors, and authorized persons were verified through alternate mechanisms owing to the non-availability of NADRA Verisys access to PSX brokers at the relevant time. The Appellant submitted that, for individual clients, NCCPL conducted verification through the NADRA Verisys system at the time of UIN generation, whereas in the case of corporate clients, the identity of directors was cross-verified against Form 29 maintained and authenticated by the Securities and Exchange Commission of Pakistan (the Commission) which already relied on NADRA verification, thereby satisfying the condition stipulated under Regulation 6(4) read with Annexure-I of the AML Regulations. The Appellant further submitted that this procedural arrangement was adopted in good faith, and the absence of Verisys access had been acknowledged by the Commission itself, as evidenced by Commission's letter dated March 20, 2020 to NADRA to facilitate its Verisys system to PSX brokers and PSX's email dated April 03, 2020, wherein the PSX brokers were informed to contact NADRA for verification purposes. The Appellant also stated it had subsequently applied to NADRA for direct Verisys access. As regards the beneficial ownership and source of income of one client, the Appellant argued that the finding of the Respondent is misconceived stating that appropriate CDD measures had not been conducted in accordance with the AML Regulations, including the submission of an indemnity bond and a declaration on the clinic letterhead by the client's mother, a medical practitioner, who was the beneficial owner of the account. The Appellant also asserted that the AML Regulations did not necessarily require production of tax returns or bank statements where other satisfactory documentation had been furnished. The Appellant further submitted that there was no intentional non-compliance on part of the Appellant and the regulatory requirements had been substantially fulfilled. Consequently, the Appellant submitted that the penalty imposed was unjustified and liable to be set aside.

5. In response to the submissions of the Appellant, the Respondent categorically denied that the Appellant had complied with the requirements of Regulation 6(4) read with Note (i) of Annexure-I of the AML Regulations, contending that the verification available through the NCCPL was limited solely to individual clients or joint account holders for the purposes of UIN generation and did not extend to corporate clients, their directors, or authorized

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persons. The Respondent submitted that the Appellant had failed to demonstrate the existence of any independent or alternative verification mechanism in the absence of direct access to NADRA *Verisys* and argued that reliance on NCCPL's system or cross-checking documents against Form 29, did not absolve the Appellant to conduct identity verification and CDD in accordance with the AML Regulations. The Respondent emphasized that the responsibility for compliance with know-your-customer (KYC) and due diligence requirements squarely rests with the broker and the Appellant cannot absolve itself on the pretext of systemic limitations. The Respondent contended that the Appellant's reliance on an indemnity and a declaration issued on the clinic letterhead of the client's mother, who was admitted as the beneficial owner of the account was inadequate in view of the significant trading activity conducted through the account. The Respondent asserted that the Appellant's failure to obtain supporting documentation such as bank statements, tax returns, or other credible evidence of the beneficial owner's source of income and funds constituted a violation of Regulations 6(3)(a) and 6(3)(c) of the AML Regulations. The Respondent further submitted that the Impugned Order being a speaking and reasoned order based on admitted and substantiated non-compliance was lawful, proportionate, and fully justified in the circumstances of the case.

6. The Appellate Bench (the Bench) has heard the arguments advanced by both parties and has undertaken a meticulous examination of the record and submissions placed before it. It is a settled principle that a regulated entity bears a continuous obligation to ensure full and effective compliance with the statutory and regulatory framework governing AML measures. The Bench is of the view that the Appellant, in its capacity as a securities broker, was required to strictly adhere to the AML Regulations, ensuring that its KYC and CDD procedures were robust, comprehensive, and aligned with the prescribed regulatory requirements. The Bench has noted that the deficiencies outlined in the Impugned Order primarily pertain to lapses in critical compliance areas i.e. deficiencies in KYC and CDD protocols. These obligations form the cornerstone of an effective AML compliance regime and are intended to mitigate the risks associated with money laundering and terrorist financing. The Bench is of the considered view that, although the lapses on part of the Appellant in relation to identity verification of corporate clients and documentation of beneficial ownership and source of funds constituted non-compliance with the mandatory provisions of the AML Regulations, the resort to alternate verification mechanisms in the absence of direct access to NADRA *Verisys*, as well as the efforts to establish the beneficial



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ownership through ancillary documentation, reflect a demonstrable intent and *bona fide* effort on part of the Appellant to comply with the regulatory framework.

7. In view of the foregoing, the Bench, while maintaining the finding of non-compliances, is of the considered opinion that the penalty of Rs. 400,000/- imposed upon the Appellant was disproportionate to the nature and extent of the identified regulatory lapses. Considering the Appellant's intent to comply with the regulatory framework and its resort to alternate verification mechanisms to address the deficiencies, the Bench deems it appropriate, in the interest of justice and equity, to exercise its discretion in revising the quantum of the penalty. Accordingly, the penalty is reduced to Rs. 200,000/- (Rupees Two Hundred Thousand only). The Appellant is further directed to ensure strict and continuous adherence to the AML Regulations, with particular emphasis on KYC and CDD obligations.
8. Accordingly, the Appeal stands disposed of with no order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Mujtaba Ahmad Lodhi)
Commissioner

Announced on:

05 MAY 2025