



# Securities and Exchange Commission of Pakistan

## BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 26 of 2023

M/s. Akhai Securities Private Limited

Versus

...Appellant

Director - Adjudication-I

...Respondent

Date of hearing:

February 6, 2025

### Present:

For the Appellant:

1. Mr. Shafqat Ali (Authorized Representative)
2. Mr. Muhammad Shafi

For the Respondent:

1. Mr. Mahboob Ahmad, Additional Director, Adjudication-I, SECP
2. Mr. Muhammad Faisal, Assistant Director, Adjudication-I, SECP
3. Mr. Hammad Ahmed, Management Executive, Adjudication-I, SECP

### ORDER

1. This Order shall dispose of Appeal No. 26 of 2023 filed by Akhai Securities (Private) Limited (the "Appellant") against the Order dated August 19, 2022 (the "Impugned Order") passed by the Director, Adjudication Department-I, Securities and Exchange Commission of Pakistan (the "Respondent") under the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (the "AML Regulations").



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2. The Appellant, Akhai Securities (Private) Limited, is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (PSX) and is licensed as a securities broker by the Securities and Exchange Commission of Pakistan (the "Commission"). An Inspection (the "Inspection") of the Appellant's operations was conducted by the Joint Inspection Team (JIT) from October 4, 2021, covering the period from July 1, 2021, to September 30, 2021. The Inspection revealed several non-compliances with the Anti-Money Laundering (AML) Regulations, including failure to maintain an adequate database for Targeted Financial Sanctions (TFS) screening, failure to screen against proscribed persons, absence of written justification for low-risk client categorization, and inadequate maintenance of Customer Due Diligence (CDD) documentation. Consequently, the Respondent issued a Show Cause Notice (the "SCN") to the Appellant on May 30, 2022. After reviewing the Appellant's response and conducting a hearing on August 11, 2022, the Respondent imposed a penalty of Rs. 330,000 for the violations identified during the Inspection.
  
3. The Appellant filed an appeal before the Appellate Bench (the "Bench"), inter alia, on the grounds that the Respondent erred in holding that the Appellant violated various provisions of the Anti-Money Laundering (AML) Regulations. The Appellant challenged the finding in paragraph 8(i) of the Impugned Order, where the Respondent alleged that the Appellant's customer database was insufficient, particularly with regard to the screening of customers, their associated individuals, and entities. The Appellant submitted that, although some information might have been missing at the time of Inspection, the database was regularly updated and used by 80% of other securities brokers at the time of the Inspection. The Appellant argued that it was not non-compliant with Regulation 25(1)(a) of the AML Regulations as it had been screening its clients regularly, even if the "NIL/No Match Report" was not available during the Inspection.
  
4. The Appellant also contested the Respondent's finding in paragraph 8(ii) of the Impugned Order concerning the screening of clients at the time of account opening. The Appellant emphasized that the accounts in question were opened in 2019, at a time when it was not mandatory under the AML Regulations to conduct screening at the time of account opening. The Appellant contended that this requirement only became



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mandatory after the promulgation of the revised AML Regulations in September 2020, and, therefore, the allegations of non-compliance for these accounts were not applicable.

5. Furthermore, in relation to the compliance of Clause D of the SRO dated September 28, 2020, as discussed in paragraph 8(iii) of the Impugned Order, the Appellant argued that the alleged late submission of a report for SRO No. HD Punjab- Deletion dated June 30, 2021, was outside the Review Period (July 1, 2021, to September 30, 2021) covered by the JIT Inspection and, hence, the Appellant contended, that this issue should not have been included in the SCN or the Impugned Order as it did not fall within the scope of the Inspection Review Period.
6. The Appellant clarified that in paragraph 8(iv) of the Impugned Order, where the Respondent alleged that the Appellant failed to justify the low-risk status of certain clients, these clients had been associated with the company prior to the promulgation of the AML Regulations and the SECP Guideline 2018, and that their low-risk status was not documented at the time of the Inspection. However, the Appellant asserted that this documentation was completed during the Inspection, and it should not be held in violation of Regulation 23(2) of the AML Regulations based on this oversight.
7. The Appellant also disputed the finding in paragraph 8(v) of the Impugned Order regarding the documentation for ten clients. While the Appellant acknowledged that certain documents were missing at the time of the Inspection, but emphasized that all requisite KYC documents for active clients were duly provided during the Inspection. For inactive clients, the Appellant clarified that the missing documentation was collected and updated post-Inspection, in accordance with Clause 3.3.2 of the SECP AML/CFT Guidelines, 2021, which permits regulated entities to classify accounts as inactive where there has been no customer-initiated activity for a defined period, and to defer full KYC documentation until reactivation. The Appellant submitted that this approach was consistent with regulatory expectations and that the clients in question had not engaged in any transactions, thereby qualifying under the said clause. The Appellant further submitted that its written responses to the Show Cause Notice (SCN) addressed each non-compliance issue in detail and were substantiated by supporting



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documents. In light of this, the Appellant requested the Bench to reconsider the basis for the penalty and to set aside the Impugned Order.

8. The Respondent refuted the Appellant's assertions, emphasizing that the Inspection was conducted in accordance with the established mandate and procedures. The Respondent pointed out that the Appellant acknowledged the insufficiency of information in its customers' database, which rendered the screening and monitoring process ineffective. The Respondent emphasized that the Appellant's admission of incomplete information in the database was an acknowledgment of non-compliance with Regulation 25(1)(a) of the AML Regulations. Furthermore, the Respondent submitted that the Appellant's argument that it could not be considered in "total non-compliance" was misplaced and without legal basis. The Respondent argued that despite the Appellant's claim of regular screening, the deficiencies in the database led to ineffective screening, which was adequately addressed in paragraph 8(i) of the Impugned Order dated August 19, 2022.
9. The Respondent also denied the Appellant's claim regarding the late submission of the compliance report for the SRO. The Respondent emphasized that the observation about the delay in submission had been judicially addressed in paragraph 8(iii) of the Impugned Order. Moreover, the Respondent iterated that the Appellant's own admission of a seven (07) day delay in submission further substantiated the Respondent's position. The Respondent maintained that such delays constituted non-compliance and were adequately considered while imposing the penalty.
10. Regarding the Appellant's justification for the low-risk categorization of three (03) clients, the Respondent pointed out that the Appellant had admitted to overlooking the written justification on the clients' KYC forms and only recorded the necessary information during the Inspection. The Respondent argued that this delay in maintaining proper documentation and compliance with Regulation 23(2) of the AML Regulations was clearly highlighted in paragraph 8(iv) of the Impugned Order, which demonstrated the Appellant's failure to meet the required standards.



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11. The Respondent further refuted the Appellant's claims concerning the missing information and documents for active customers. The Respondent stated that the Appellant's own admission that it gathered the missing information during the Inspection confirmed the deficiencies in the Appellant's processes and that this was fairly addressed in paragraph 8(v) of the Impugned Order, which judicially concluded that the Appellant had failed to comply with the relevant provisions during the Review Period.
12. In light of the above, the Respondent maintained that all procedural actions were carried out in compliance with the relevant legal standards. The Respondent emphasized that the Appellant's attempts to dispute the findings and the penalty did not alter the fact that the violations were substantial, and the penalty imposed was appropriate under the governing AML Regulations.
13. After carefully considering the case, the Bench acknowledges the Respondent's position that the procedural actions taken during the Inspection were in line with the applicable legal requirements. The Bench recognizes that even though the Appellant did not fully adhere to the AML Regulations, it did cooperate during the Inspection and made reasonable efforts to address the issues raised in the SCN.
14. The Bench also takes into account that the Appellant made efforts to rectify some of the deficiencies identified during the Inspection, particularly regarding Customer Due Diligence (CDD) and low-risk client categorization and although these corrective actions were not completed in a timely manner, the Appellant demonstrated a willingness to address the issues when raised. Additionally, the Bench notes that some of the violations, such as the failure to justify low-risk categorization, were related to historical records that were not properly documented at the time, rather than intentional non-compliance.
15. In light of these factors, the Bench concludes that the original penalty of Rs. 330,000 was disproportionate. Given the Appellant's partial cooperation and the corrective actions taken during the process, the Bench finds it appropriate to reduce the penalty to Rs. 140,000.



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16. Consequently, the appeal is hereby dismissed, with no order as to costs.

  
(Zeeshan Rehman Khattak)  
Commissioner

  
(Mujtaba Ahmad Lodhi)  
Commissioner

Announced on: **11 JUN 2025**