



# Securities and Exchange Commission of Pakistan

## BEFORE THE APPELLATE BENCH

In the matter of

### Appeal No. 40 of 2022

Salim Sozer Securities (Pvt.) Limited

...Appellant

versus

The HOD/Director, Adjudication Department-I, SECP

...Respondent

Date of hearing:

06<sup>th</sup> August, 2025

Present:

For the Appellants:

Mr. Abdus Samad Salim Sozer

For the Respondent:

1. Mr. Sohail Qadri, Director, (Adjudication Department-I, SECP)
2. Mr. Muhammad Faisal, Deputy Director, (Adjudication Department-I, SECP)

## **ORDER**

1. This Order shall dispose of Appeal No. 40 of 2022 filed by Salim Sozer Securities (Pvt.) Limited ("the Appellant") under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 against the Order dated May 09, 2022 (the "Impugned Order") passed by the Director/Head of Department, Adjudication-I ("the Respondent") under Section 40(A) of the Securities and Exchange Commission of Pakistan Act ("the SECP Act") read with the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ("the AML Regulations").

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2. Brief facts of the case are that the Appellant is registered as a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited and licensed as a securities broker with the Securities and Exchange Commission of Pakistan (the Commission). An inspection of the Appellant was initiated by the Joint Inspection Team (JIT) vide inspection order dated October 31, 2020 with the aim to assess compliance with the AML Regulations. The inspection revealed various violations of the AML Regulations. Therefore, the Commission while taking cognizance of the aforesaid violations, served a show-cause notice dated June 3, 2021 (the "SCN") under section 40A of the SECP Act read with the AML Regulations. Thereafter, the Appellant submitted its written response to the SCN vide its letter dated June 16, 2021.
3. The Appellant was accorded an opportunity of personal hearing on February 12, 2020. The hearing was attended by the Company Secretary/Director of the Appellant as the Authorized Representative. During the hearing, the Authorized Representative iterated the arguments as submitted in response to the SCN. It was submitted that the Appellant is a small brokerage house which lacks automated systems for the purpose of screening and record maintenance. The Authorized Representative also provided that, owing to its' limited capacity and resources, the Appellant could not maintain a database comprehensively as required under the AML Regulations. Subsequently, the Respondent not being satisfied with the response and stance of the Appellant and in exercise of powers conferred under Section 40A of the Act, imposed a penalty of Rs. 300,000/- (Rupees Three Hundred Thousand Only) for the aforementioned contraventions.
4. The Appellant has preferred this Appeal, *inter alia*, on several grounds, including the assertion that the Impugned Order lacks proper appreciation of the relevant law and facts of the matter. It was contended before the Appellate Bench (the "Bench") that the Impugned Order is in violation of the basic principle of natural justice, inasmuch as the Appellant was subjected to harsh penal consequences despite having full cooperation during the proceedings. It was further submitted that the Appellant, on its own initiative, furnished detailed responses and justifications, and therefore the Commission ought to have adopted a more lenient approach. In response to the allegation that the Appellant had violated the requirements of Regulation 15(3) of the AML Regulation, the Appellant submitted that all the documents had been maintained in an excel file, which were duly produced before to the inspection team.



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5. Furthermore, the Appellant denied any violation of Regulation 11(2) of the AML Regulations and submitted that the justifications with regard to the “low-risk” categorization of clients were duly maintained with all other relevant record. The Authorized Representative further submitted that, where a client has been classified as ‘low-risk’ under its own methodology, such classification is justified by the fact that the client had complied with all documentation and due diligence requirements. It was further submitted that all relevant information had been properly documented with respect to both individual and corporate clients. For this purpose, the Appellant employs a ‘Risk Categorization Matrix’, through which the KYC information provided by each client is assessed to assign an appropriate risk category of low, medium, or high. On this basis, the Authorized Representative contended that the allegations of non-compliance are without merit. It was further submitted that clients who exhibited reluctance in providing information were placed under strict observation, while the ongoing due diligence process was diligently adhered to. As an abundant precaution, the Appellant also gave due consideration to the suggestions of the inspection team; however, this does not imply that compliance was achieved only subsequent to the inspection. Accordingly, it was denied that the Appellant has acted in contravention of the AML Regulations.
6. It was further denied that the Appellant has acted in contravention of Regulations 6(3)(a), 6(3)(c) and 9(4)(a) of the AML Regulations, as all documents pertaining to beneficial ownership were duly provided to the inspection team. Moreover, it was asserted that the Appellant had furnished documentary evidence regarding the source of income and/or funds of its clients. In furtherance of this submission, with specific reference to the Politically Exposed Persons (PEP) client, it was highlighted that all requisite evidence was duly provided by the Appellant.
7. It was emphasized that at the time of inspection, the inspection team seemed satisfied with furnished evidence and they did not highlight any non-compliance of the AML Regulations. While maintaining that the Appellant had complied with the AML Regulations to the best of its capacity, it was submitted that the Commission earlier disregarded the policies and procedures previously submitted by the Appellant and had directed that they could employ their own methodologies. However, when such methodologies were subsequently developed and implemented, the Commissions found them deficient and, and as a



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consequence, imposed disproportionately harsh penalties. It was stated that, based on the Appellant's established methodology, there existed a 'zero' risk of money laundering or terrorist financing, as the clients in question were long-standing and well-known to the Appellant.

8. In response, the Respondent countered the grounds of the Appeal and proffered arguments by emphasizing that the Impugned Order was not only issued in strict accordance with the law but also after thorough consideration of the facts presented in the matter. It was emphasized that the Appellant was afforded a fair opportunity of hearing, and the penalty was imposed only after due consideration of the submissions advanced by the Appellant, the facts of the case, the material available on record, and the applicable provisions of the AML Regulations.
9. It was further submitted that the SCN had been issued on the basis of observations highlighted by the JIT in the inspection report, as well as the response of the Appellant. In this regard, the Respondent submitted that the violations alleged therein were grounded in the deficiencies in record-keeping, client screening, and documentation relating to beneficial ownership and source of income, which remained unaddressed in the report. Accordingly, the Impugned Order was passed after a comprehensive evaluation of the Appellant's submissions, the material on record, and the applicable statutory framework.
10. With respect to the maintenance of records concerning client screening, the Respondent submitted that, at the time of inspection, the Appellant was conducting manual screening of customers, matching CNIC numbers against client details maintained in Excel sheets. Although such records were produced, the Appellant nonetheless lacked any software-based screening mechanism, as stipulated in para 7(i) of the Impugned Order. Moreover, regarding the justification of clients categorized as 'low-risk', it was submitted that no record was maintained by the Appellant at the time of inspection, as stipulated in para 7(ii) of the Impugned Order.
11. With respect to beneficial ownership, the Respondent submitted that the Appellant had failed to provide evidence pertaining to the beneficial ownership of four clients who had been identified either as housewives or students. In addition, the Appellant did not furnish



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documentary evidence regarding the source of income/or funds of five clients. As regards the PEP client, it was submitted that the Appellant itself conceded that the default had only been rectified subsequently. These deficiencies were duly recorded in para 7(iii) of the Impugned Order.

12. The Respondent maintained that the SCN was lawfully issued on the basis of the deficiencies identified in the review report, and the penalty was imposed only after taking into account the Appellant's submissions, the record, and the provisions of the AML Regulations. It was further emphasized that the present matter has been decided on its own merits, and the Impugned Order, being a detailed speaking order passed after affording full opportunity of hearing, deserves to be upheld. In view of the foregoing, the Respondent prayed for dismissal of the appeal and requested that the Impugned Order be upheld in its entirety.

13. The Bench has carefully examined the record and considered the detailed submissions advanced by both the Appellant and the Respondent. It is evident that the Appellant, being a small brokerage house with limited resources, was employing manual systems for client screening and record-keeping rather than automated mechanisms. The Bench notes that, while this falls short of the prescribed regulatory standards, the deficiencies pointed out appear to have arisen more from resource constraints and methodological shortcomings rather than from deliberate or wilful non-compliance. The Appellant has further demonstrated that client due diligence was undertaken, risk categorization was applied through a structured matrix, and information was collected to the extent possible, including the matter of its PEP client. On the other hand, the Respondent's contention that the inspection revealed deficiencies in record-keeping and client screening carries weight and justifies regulatory intervention to ensure compliance. However, the Bench finds that the quantum of penalty imposed does not proportionately reflect the nature of the violations and/or the mitigating circumstances established.

14. In this regard, the Bench is guided by the principle of proportionality enunciated by the Hon'ble Supreme Court in *Muhammad Nasir Ismail v. Government of Punjab* (SCMR 2025 SC 708), wherein it was observed that the "*penalty must not be excessively harsh in relation to the offense*". It was stated that "*Proportionality is assessed through a structured three-ponged test; First, whether the measure in question is suitable and bears a rational*



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connection to the legitimate objective it seeks to achieve. Second, whether the measure is necessary, meaning no less restrictive or less onerous alternative exists to accomplish the same purpose. Third, whether the measure maintains a fair balance between the public interest and the rights of the individual, ensuring that the burden imposed is neither excessive nor oppressive in relation to the intended benefit". Applying this test, the Bench notes that while the imposition of a penalty is a suitable regulatory measure to deter future non-compliance, the quantum of penalty imposed on the Appellant is disproportionately high, particularly when viewed against the fact that the contraventions stemmed from resource constraints rather than deliberate disregard of the AML Regulations. Second, a lesser penalty or corrective direction would have been a sufficient and less onerous means of achieving the same objective of ensuring compliance. Third, in striking a balance, the imposition of an unduly harsh financial penalty upon a small brokerage house, which has otherwise demonstrated cooperation and taken steps towards compliance, tilts the scales unfairly and places a burden disproportionate to the intended regulatory benefit.

15. The Bench concludes that while the contraventions of the AML Regulations cannot be condoned, they must be addressed in a manner that balances enforcement with fairness. Accordingly, the penalty imposed is reduced to Rs. 50,000/- (Rupees Fifty Thousand Only), coupled with a direction to the Appellant to upgrade its systems, strengthen its record-keeping practices, and ensure full compliance with the AML Regulations in the future. The Appeal is thus disposed of, with no order as to costs.

(Zeeshan Rehman Khattak)

Commissioner

(Abdul Rehman Warraich)

Commissioner

Announced on:

30 SEP 2025