Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 45 of 2025

Brains Securities Private Limited

..... Appellant

versus

Head of Wing - Adjudication Department-I, SECP

..... Respondent

Date of hearing: April 22, 2026

Present:

For the Appellant:

1. Mr. Shafqat Ali, Authorized Representative
2. Ms. Hamna Nadeem, Compliance Officer

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. 45 of 2025 (the "Appeal") filed by Brains Securities (Private) Limited (the "Appellant") against the Order dated April 18, 2025 (the "Impugned Order"), passed by the Head of Wing, Adjudication Department-I, Securities and Exchange Commission of Pakistan (the "Respondent"), under Section 6A(2)(h) of the Anti-Money Laundering Act, 2010 (the "AML Act") read with Rule 4(1)(a) and Rule 6(1) of the AML/CFT Sanction Rules, 2020 (the "AML/CFT Rules") and Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 (the "AML Regulations").

2. The brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate ("TREC") holder of the Pakistan Stock Exchange Limited ("PSX") and is licensed as a securities broker under the Securities Act, 2015. An inspection of the Appellant was carried out by the Joint Inspection Team ("JIT"), comprising officials from PSX, CDC and NCCPL, for the period December 01, 2022 to November 30, 2023 (the "Inspection Period"), to ascertain the Appellant's compliance status with the AML Regulations. The iinspection report dated May 10, 2024 revealed that the Appellant was, *prima facie*, non-compliant with various provisions of the AML Regulations. Based on the Inspection Report, a Show Cause Notice dated October 08, 2024 (the "SCN") was issued to the Appellant. Upon consideration of the written and verbal submissions and material on record, the Respondent established contraventions of Regulations 8, 9, and 21 read with Annexure-I of the AML Regulations, and imposed a penalty of Rs. 190,000/- (Rupees One Hundred and Ninety Thousand Only) on the Appellant *vide* the Impugned Order.

3. The Appellant has preferred the instant Appeal on the grounds, *inter alia*, that the JIT inspection was conducted remotely through email correspondence rather than by way of an onsite visit and that, due to this mode of inspection, several deficiencies arose from misunderstandings and miscommunication. In support, the Appellant pointed out that the initial Letter of Finding ("LOF") dated March 18, 2024 contained observations spread across 35 pages of Annexure-I, which were ultimately reduced to only eight deficiencies in the SCN. Regarding the established contraventions, the Appellant submitted that, in relation to Regulation 8 of the AML Regulations concerning KYC/CDD checklists of beneficial owners, the checklists for the six clients initially flagged were furnished with the response to the SCN and were consequently dropped by the Respondent, while the remaining three checklists were submitted after the SCN hearing and ought to have been considered as remedial compliance. In relation to Regulation 21 of the AML Regulations, concerning EDD requirements for four high-risk clients, the Appellant submitted that EDD checklists for three clients had been provided, while source of income/funds documentation for the remaining was subsequently arranged and furnished after the SCN hearing. As regards to NADRA *Verisys* verification, the Appellant attributed the non-compliance to industry-wide operational difficulties in obtaining NADRA *Verisys* devices, noting that the SECP itself had taken up the matter with NADRA and that the function had subsequently been assigned to NCCPL. The

Appellant accordingly prayed that the Impugned Order be set aside and the penalty be waived in its entirety.

4. The Respondent contested the Appeal and submitted that the Appellant's contention regarding remote inspection and alleged miscommunication was misconceived, as all submissions made by the Appellant were duly considered before finalization of the inspection report. The Respondent further submitted that the Impugned Order dated April 18, 2025 was passed after the hearing held on March 19, 2025, upon due consideration of all material on record, and that subsequent compliance does not absolve the Appellant of the defaults already committed. Regarding Regulation 8 of the AML Regulations, the Respondent submitted that KYC/CDD checklists of three out of four clients were not furnished during the adjudication proceedings and remained outstanding until after the SCN hearing, therefore, the contravention was rightly established. In relation to Regulation 9 read with Note (i)(o) of Annexure-I of the AML Regulations, the Respondent submitted that the documents provided for six client accounts were either insufficient to substantiate source of income/earnings or had been obtained after the Inspection Period and thus did not establish contemporaneous compliance. With respect to Regulation 21 of the AML Regulations, the Respondent submitted that although EDD checklists for three of the four high-risk clients were furnished, source of income/funds documentation was not provided for any of the four clients during the Inspection Period, and the Appellant itself admitted that such documentation for three clients was arranged only after the SCN hearing. Regarding NADRA *Verisys* verification, the Respondent submitted that the Appellant's reliance on operational difficulties was untenable, particularly as the Appellant acknowledged that the issue with NADRA had subsequently been resolved. The Respondent accordingly prayed that the Appeal be dismissed and the Impugned Order be upheld in its entirety.

5. The Appellate Bench (the "Bench") has carefully examined the record, heard the parties, and considered the Impugned Order in its entirety. The Bench observes that the Appellant was afforded adequate opportunity to respond to the LOF, that a hearing opportunity was duly provided during the proceedings, and that the Impugned Order was passed after due consideration of the material available on record. The Bench, therefore, does not accept the Appellant's contention that the

deficiencies identified during inspection arose solely from misunderstandings or miscommunication attributable to the remote nature of the inspection.

6. With regard to the individual contraventions, the Bench finds that with regard to Regulation 8 of the AML Regulations concerning KYC/CDD checklists of beneficial owners of three clients, the relevant documentation was admittedly furnished only after the hearing of the show cause proceedings. The obligation to maintain and produce such documentation during the Inspection Period is mandatory, accordingly, the finding is upheld. With respect to non-compliance regarding source of income/earnings documentation for six client accounts, the Bench notes that the documents relied upon by the Appellant were either insufficient to substantiate the declared source of income/earnings or were obtained after the Inspection Period. With respect to Regulation 21 of the AML Regulations concerning EDD requirements for four high-risk clients, the Bench notes that EDD checklists were furnished for only three of the four clients, while source of income/funds documentation was not available during the Inspection Period. The Appellant itself acknowledged that documentation for certain clients was arranged only subsequent to the hearing. Given the EDD obligations applicable to high-risk clients, the Bench concurs with the Respondent's conclusion and upholds the contravention. Further, the Bench has also considered the Appellant's contention regarding operational difficulties in obtaining NADRA *Verisys* during the relevant period. The record indicates that such difficulties were not unique to the Appellant and that the issue had been taken up by the SECP with NADRA, with the verification function subsequently being assigned to NCCPL. While these circumstances do not absolve regulated persons from compliance obligations under the AML Regulations, they do constitute a relevant mitigating factor in assessing the proportionality of the penalty.

7. In view of the foregoing, the Bench is of the considered view that the contraventions of various provisions of the AML Regulations stand duly established. However, considering the mitigating factors discussed above, the Bench considers it appropriate to take a lenient view of the matter and accordingly reduces the penalty imposed under the Impugned Order to **Rs. 95,000/- (Rupees Ninety-Five Thousand Only**). The Appellant is further directed to ensure strict and meticulous compliance with the AML Regulations in letter and spirit. The Appeal is accordingly **disposed of** in the above terms, with no order as to costs.

8. 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 law.

(Zeeshan Rehman khattak)
Commissioner

(Muhammad Ali Farid Khwaja)
Commissioner

Announced on: 13 MAY 2026