Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 53 of 2020

JS Investment Limited

….. Appellant

versus

Executive Director, Adjudication Department-I, SECP

…..Respondent

Date of hearing: March 05, 2026

Present:

For the Appellant:

Mr. Malik Zafar Javaid, Authorized Representative

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. 53 of 2020 filed by JS Investments Limited (the "Appellant"), against the Order dated March 9, 2020 (the "Impugned Order"), passed by the Executive Director (Adjudication Department-I), SECP (the "Respondent"), under the provisions of the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Finance of Terrorism) Regulations, 2018 (the "AML Regulations") read with Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act").

2. The brief facts of the case are that the Appellant is a licence holder to undertake the business of asset management, investment advisory services and pension fund management. The Securities and Exchange Commission of Pakistan (the "Commission") on October 07, 2019, ordered a scope-specific inspection (the "Inspection") of the Appellant under Section 282I of the Companies Ordinance, 1984, to assess its compliance with the AML Regulations. The Inspection revealed several violations/non-compliances, *inter alia*, CNICs of all joint account holders and directors/trustees/beneficial owners and nominees were not appearing in the database used for screening clients against United Nations Security Council Sanctions (UNSC)/National Counter Terrorism Authority (NACTA) lists, inconsistent risk categorization of clients across funds in violation of Regulations 6(8) and 13(3), absence of an automated software system for KYC/CDD and TFS monitoring and automatic alert generation, customer transactions not being assessed/monitored for consistency with business/risk profile, deficiencies in the Internal Audit Department's implementation of AML requirements, in violation of Regulation 4(d) and deficiencies in the record/documentation of certain investors selected on sample basis, in violation of Regulation 9(4) of AML Regulations. Pursuant to these findings, the Respondent issued a Show-Cause Notice dated January 10, 2020 (the "SCN"). After considering the written reply and hearing held on January 21, 2020, the Respondent passed the Impugned Order, imposing an aggregate fine of Rs. 250,000/- (Rupees Two Hundred and Fifty Thousand Only) on the Appellant.

3. The Appellant has challenged the Impugned Order, *inter alia*, on the grounds that the Respondent had failed to appreciate the Appellant's submissions and the substantial compliance efforts undertaken by it both prior to and in the course of the inspection proceedings. The Appellant took the plea that out of 1,347 joint account holders whose CNICs were not appearing in the screening database, 624 belonged to unregistered clients of JS Value Fund, JS Large Capitalization Fund and JS Growth Fund, being funds that were converted from closed-end to open-end structures in 2010 and 2013 with minimal client information available from the previous registrar at the time of conversion, and that in most such cases, CNICs had not even been introduced or implemented in Pakistan before 2000, at the time of original account opening under the Investment Corporation of Pakistan. The Appellant further contended that the remaining 723 accounts were registered during 2006-2008 and were marked as "Inactive" in the system, of which

approximately 91% carried nil balances, and that no inactive or unregistered account holder was permitted to execute any transaction until their KYC status was duly updated and they were screened against the proscribed lists of UNSC and NACTA. Further, these inactive accounts represented only approximately 1.76% of the Appellant's total assets under management.

4. The Appellant further argued that the Respondent failed to appreciate that the apparent deficiency in screening was not a substantive non-compliance but arose from genuine historical and systemic constraints beyond the Appellant's control, and that it had been actively engaged in remedying the same through annual communications and newspaper notices to unregistered clients. As regards the inconsistency in risk categorization, the Appellant submitted that the dual marking of certain clients as both 'high' and 'low risk' was attributable to a technical limitation of the then-existing *ERP* system, which had been identified, addressed and fully rectified by December 2019, within the timeline committed to the Commission. The Appellant further averred that all necessary developments in the *ERP* system, comprising approximately 30 distinct development points aimed at automating monitoring requirements, generating red flags and warning alerts, and maintaining an organized investor database, had been completed within the committed timelines and that documentary evidence thereof was duly furnished to the Commission.

5. With respect to the internal audit function, the Appellant maintained that the Internal Audit Department had actively participated in the preparation of the AML/CFT Policy, advised on system developments, monitored implementation of AML Regulations, and reviewed investor documentation, and that any perceived inadequacy in formal audit reporting was being addressed through a comprehensive audit plan to be placed before the Audit Committee. The Appellant further submitted that the five instances of alleged documentary deficiencies pertaining to source of income constituted only a marginal proportion of the total sample of accounts reviewed during the Inspection, and that completing the KYC/CDD process necessarily involves subjective assessment, particularly in respect of retired persons, housewives, widows and individuals with inherited wealth, for whom precise correlation of investment amounts with declared income is practically unachievable. Lastly, the Appellant contended that the penalty

imposed vide the Impugned Order is excessive, disproportionate and unreasonable, inasmuch as the alleged non-compliances were either not actual violations of the AML Regulations or had been duly rectified by the Appellant in the ordinary course of compliance, and that no allegation of actual money laundering or terrorist financing activity had been levelled against the Appellant or any of its clients. The Appellant accordingly prayed that the Impugned Order be annulled and the penalty imposed thereby be reversed.

6. The Respondent has rebutted the grounds of the Appeal and presented arguments in support of the Impugned Order. It was contended by the Respondent that the Impugned Order had been passed strictly in accordance with law after a thorough and comprehensive review of all relevant facts, documentary evidence, and representations made by the Appellant at the hearing as well as in its written reply to the SCN, and that it does not suffer from any legal or procedural infirmity. The Respondent submitted that the AML Regulations were promulgated in June, 2018 and that the Appellant, being a Non-Banking Finance Company (NBFC) licensed to undertake asset management, investment advisory and pension fund management services, was duty-bound to ensure immediate and full compliance with the requirements of the said Regulations upon their promulgation, which it manifestly failed to do.

7. The Respondent further pleaded that the Appellant's plea that accounts of investors were opened with minimum information at the time of conversion of funds from closed-end to open-end structures is not tenable, inasmuch as sufficient time had lapsed since the conversions in 2010 and 2013, respectively, affording the Appellant ample opportunity to register its clients and update the investor database in conformity with the AML Regulations well before the commencement of the Inspection in October, 2019, and that the failure to do so is indicative of laxity and weakness in the responsiveness of the management. The Respondent also stated that the CNICs of directors, trustees, beneficial owners and nominees were not appearing in the Appellant's database, which implied that such persons were not being screened against the proscribed lists, and that the information pertaining to Ultimate Beneficial Owners was being collected only after the said deficiency had been highlighted by the Inspection team, which further established the Appellant's non-compliance with Regulation 6(5)(a) of the AML Regulations.

8. The Respondent contended that the deficiencies in the categorization of clients into 'high risk' and 'low risk' categories existed at the time of the Inspection and that all corrective system developments were undertaken only in the post-inspection period, which cannot exonerate the Appellant from the consequences of prior non-compliances established on the record. The Respondent reiterated that during the course of the Inspection, the Appellant had neither developed a software system for KYC/CDD and TFS monitoring nor an automated alert generation system capable of capturing money laundering and terrorist financing warning signs. As regards the internal audit function, the Respondent maintained that notwithstanding the Appellant's assertions regarding the role of its Internal Audit Department, the said department had not conducted a full-fledged audit of the AML/CFT regime during the period under review and had failed to address the status of implementation of AML and CFT Regulations, as was evident from the Internal Audit reports produced by the Appellant, and that therefore compliance with Regulation 4(d) of the AML Regulations could not be established. The Respondent further argued that the five instances of discrepant accounts identified during the Inspection were all clients marked as 'high-risk', yet the determination of their source of income and source of wealth was based on mere assumptions in the absence of requisite documentary evidence, thereby constituting a clear violation of Regulation 9(4)(b) of the AML Regulations, and that the Appellant's contention that the number of discrepant accounts was small relative to the total sample demonstrates a fundamental failure to appreciate the gravity and severity of the AML/CFT compliance framework and the risks it is designed to mitigate. The Respondent accordingly prayed that the learned Appellate Bench dismiss the instant Appeal and pass an order for implementation of the Impugned Order.

9. 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. The Bench notes that the Inspection conducted by the Commission in October, 2019 revealed certain genuine gaps in the Appellant's compliance with the AML Regulations, which were promulgated in June, 2018. While the Bench acknowledges the Appellant's considerable efforts in developing its *ERP* system and implementing the AML framework, including the preparation of its AML/CFT Policy approved by the Board, establishment of an AML Committee, purchase of the *World Check One* screening

software, and system developments completed within committed timelines, the Bench is mindful that as a regulated entity, the Appellant was required to be fully compliant with the applicable legal framework at all material times, and not merely within timelines extended post-inspection.

10. The Bench has particularly considered the unique historical context of the unregistered accounts, which trace their origins to Investment Corporation of Pakistan (ICP) funds that were privatized and converted from closed-end to open-end structures, in many cases with minimal client information available from the original registrar, and where CNICs had not yet been introduced or implemented in Pakistan at the time of original account opening. The Bench recognizes that this circumstance presented genuine practical difficulties for the Appellant in completing the registration and screening process for such legacy accounts. At the same time, the Bench observes that the conversion of these funds to open-end schemes occurred as far back as 2010 and 2013, and the AML Regulations were promulgated in 2018, affording the Appellant a reasonable window of opportunity to address these deficiencies proactively.

11. Having regard to all the facts and circumstances, the Bench observes that while the regulatory non-compliances stand established on record, several mitigating factors weigh in favor of the Appellant, the violations were technical in nature and were not associated with any actual instance of money laundering or terrorist financing. The Appellant's corrective system developments were completed on schedule and within committed timelines, unregistered and inactive account holders were effectively barred from conducting any transactions and the quantum of unregistered/inactive accounts, though numerically significant, represented only a minor proportion of the Appellant's total assets under management. Furthermore, demonstrating its commitment to strengthening its compliance framework, the Internal Audit Department of the Appellant issued a comprehensive report consisting of observations and recommendations on the implementation of AML Regulations for the last quarter of the calendar year 2019, reflecting the Appellant's proactive efforts towards adherence to the AML regime.

12. In view of the foregoing, the Bench is of the considered view that while the penalty imposed by the Respondent was lawful and within the regulatory authority's mandate, a

degree of leniency in the quantum of penalty is justified in light of the mitigating circumstances elaborated above. Accordingly, the penalty imposed on the Appellant is reduced to Rs. 150,000/-. The Appellant is further directed to ensure that it remains fully compliant with the AML/CFT regulatory framework.

13. 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. Accordingly, the Appeal is disposed of on the above terms with no order as to costs.

(Muzzafar Ahmed Mirza)
Commissioner

(Muhammad Ali Farid Khawaja)
Commissioner

Announced on: 12 MAR 2026