



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 60 of 2019

Multiline Securities (Pvt.) Limited

...Appellant

Versus

Commissioner, Securities Market Division

...Respondent

Date of hearing:

May 10, 2024

Present:

For the Appellant:

1. Barrister Rehan Keyani, Advocate

For the Respondent:

1. Mr. Mahboob Ahmad, Additional Director, Adjudication Division, SECP
2. Mr. Muhammad Faisal, Assistant Director, Adjudication Division, SECP

ORDER

1. This order shall dispose of Appeal No. 60 of 2019 filed by M/s. Multiline Securities (Private) Limited (the "Appellant") under section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 against the order dated April 08, 2019 (the "Impugned Order") passed by the Commissioner, Securities Market Division (the "Respondent") under section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "Act").



Securities and Exchange Commission of Pakistan

2. The brief facts of the case are that the Appellant is a Trading Right Entitlement Certificate (“TREC”) holder of the Pakistan Stock Exchange (“PSX”) and licensed as a securities broker under the Securities Act, 2015. The Joint Inspection Team of PSX, Central Depository Company and National Clearing Company of Pakistan Limited conducted a thematic review of the Appellant to assess its compliance with the regulatory requirements contained in the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the “AML Regulations”). The inspection revealed non-compliance of Regulations 3(1)(a), 4(a), 6(2), 6(3)(a), 6(8), 13, 15, 18(c) and 20(b) of the AML Regulations. The deficiencies and lapses cast serious doubts on the authenticity of the company’s internal controls, policies and procedures implemented under the AML/CFT Laws. Therefore, for these contraventions a show-cause notice dated February 07, 2019 was issued to the Appellant and the Respondent after considering the submissions of the Appellant rendered in the hearing, a penalty of Rs. 450,000/- was imposed on the Appellant vide the Impugned Order. The Appellant was further advised to enforce the provisions of AML Regulations in letter and spirit.
3. The Appellant has challenged the Impugned Order, *inter alia*, on the grounds that the Respondent had failed to appreciate the Appellant’s arguments regarding the subsequent compliance status. The Appellant has taken the plea that after the Inspection, a proper and elaborate risk assessment scheme was put in place for all existing and new clients, AML/CFT policy was revised and updated in accordance with AML Regulations, CDD of the clients were carried out and necessary documents to establish beneficial ownership of the clients as mentioned in the SCN were also obtained. The Appellant further elaborated that it had expanded the role of the appointed Compliance Officer as required under AML Regulations and conducted a necessary training program of its employees. The Appellant argued that the Impugned Order punished the Appellant for not implementing AML Regulations by September 2018 as the Appellant did have ample time to comply with the requirements of the AML Regulations and guidelines. The Appellant also stated that, in any event, a penalty ought to be used as a measure to enforce rectification where alleged violations are not rectified and once it has come on record that the alleged violations have been rectified then to penalize in relation to a regulatory matter especially when no harm has been caused is a malafide and unlawful act, which is liable to be declared void. The Appellant further argued that the alleged violations relate to compliance matters and not a single alleged violation concerns assisting in or



Securities and Exchange Commission of Pakistan

revealing of money laundering or terrorist financing activities by the Appellant or any of its clients, therefore, the penalty imposed on the Appellant is excessive, disproportionate and unreasonable.

4. The Respondent has rebutted the grounds of the Appeal and presented arguments in support of their stance. It was contended by the Respondent that the Impugned Order quite fairly analyzes the submissions of the Appellant, and evidence available on the record and subsequent compliance, if any, does not exonerate the Appellant from the consequences of prior non-compliances. The Respondent stated that although the AML Regulations were issued in the year 2018, however, the requirement contained therein are not new because the same were introduced in the year 2012 by Karachi Stock Exchange Limited (currently PSX). The Respondent pleaded that Regulation 4.18 of the PSX Rule Book made it mandatory for the securities broker to formulate and implement an effective KYC and CDD policy in accordance with the 'Know Your Customer and Customer Due Diligence Guidelines' issued by the Exchange. The Respondent reiterated that the penalty was imposed after consideration of the facts of the case and on the basis of established and admitted non-compliances of the AML Regulations at the time of the Inspection. Therefore, the imposition of the penalty through the Impugned Order has been imposed in accordance with law as prescribed under AML Regulations read with Section 40A of the Act.

5. The Bench has heard the arguments of both the parties and perused the record. The Bench is of the opinion that the Appellant has the responsibility to strictly adhere to the relevant requirements outlined in the AML Regulations and subsequent rectification actions do not absolve the Appellant from the committed violations. The Bench is of the view that these requirements were made mandatory for the securities brokers to formulate and implement an effective KYC and CDD policy in accordance with the KYC and CDD guidelines issued by the Karachi Stock Exchange in the year 2012. The Bench has analyzed the requirements of the regulatory framework of the year 2012 with the AML Regulations and observed that they do not reflect any material difference. Therefore, the Bench is of the view that the AML Regulations had not introduced any new regulatory requirements and the non-compliances observed during the Inspection were also non-compliances of the regulatory framework introduced in the year 2012. However, during the course of arguments the Appellant stated that the Appellant took various rectification actions and measures to comply with the AML Regulations including revision of AML/CFT policy, implementation of appropriate risk



Securities and Exchange Commission of Pakistan

assessment scheme, CCD of all clients, necessary documentation to establish beneficial ownership, enhancement of role of Compliance Officer and are committed to ensure meticulous compliance with the applicable regulatory framework.

6. In view of the foregoing, the Bench considers it justified to reduce the penalty. Therefore, we hereby modify the Impugned Order to the extent that the penalty imposed on the Appellant vide Impugned Order is reduced to Rs. 250,000/- and the instant Appeal is **disposed of** on above terms with no order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Mujtaba Ahmad Lodhi)
Commissioner

Announced on: 04 JUL 2024