



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 66 of 2020

Fair Edge Securities (Pvt.) Limited

..... Appellant

Versus

Executive Director, Adjudication Department-I, SECP

..... Respondent

Date of Hearing:

January 29, 2026

Present:

For the Appellant:

1. Mr. Muhammad Safdar Kazi, CEO
2. Mr. Shafqat Ali, Consultant

For the Respondent:

1. Mr. Mubasher Saeed Saddozai, Executive Director, Adjudication Division, SECP
2. Mr. Sohail Qadri, Director/HOD, Adjudication Department-I, SECP
3. Mr. Muhammad Faisal, Deputy Director, Adjudication Department-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 66 of 2020 filed by Fair Edge Securities (Pvt.) Limited (the "Appellant"), against order dated June 09, 2020 (the "Impugned Order"), passed by the Executive Director, Adjudication Department-I, SECP (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan, 1997 (the "SECP Act") and Section 150 of the Securities Act, 2015 (the "Securities Act").
2. Brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate ("TREC") holder of the Pakistan Stock Exchange (the "PSX") and licensed as a securities broker under the Securities Act. The Securities and Exchange Commission of Pakistan (the "Commission"), through its letter dated February 28, 2019, conducted a limited-scope



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thematic review to assess the Appellant's compliance with the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "AML Regulations"). In response, the Appellant submitted its reply vide letter dated March 07, 2019. After examination of the said reply, the Commission issued a letter of findings dated July 08, 2019, whereby the Appellant was found to be non-compliant with Regulations 4(a), 18(c)(iii), and 4(d) of the AML Regulations, relating to the existence of a duly approved Anti-Money Laundering and Countering Financing of Terrorism ("AML/CFT") policy, responsibilities of the Compliance Officer with regard to updation of the AML/CFT policy, and the maintenance of an independent and effective internal audit function. It was further observed that the absence of an effective internal audit function also constituted violations of Regulations 16(9)(e) and 16(9)(f) of the Securities Brokers (Operations & Licensing) Regulations, 2016 (the "Licensing Regulations").

3. In view of the aforesaid observations, the Respondent issued a show-cause notice dated April 27, 2020 (the "SCN") to the Appellant, to which the Appellant submitted a written reply dated May 08, 2020, asserting that the AML/CFT policy had been updated and approved by the Board of Directors on July 16, 2019 and that the identified deficiencies had been addressed. The Appellant was afforded an opportunity of personal hearing on June 02, 2020. Upon consideration of the material on record, the Respondent imposed a penalty of Rs. 300,000/- (Rupees Three Hundred Thousand only) for violation of the AML Regulations and a further penalty of Rs. 100,000/- (Rupees One Hundred Thousand only) for violation of the Licensing Regulations.
4. The Appellant has preferred the instant Appeal on the following grounds *inter-alia*:
 - i. The SCN and the Impugned Order are wrongly based on an alleged "Thematic Review," whereas no physical or independent thematic review was conducted and the Commission merely sought information under section 137 of the Securities Act. It was argued that penal action based solely on correspondence, without on-site inspection or identification of actual ML/TF risk, was unlawful.
 - ii. The AML Regulations, 2018 and the Securities and Exchange Commission of Pakistan Guidelines on Anti-Money Laundering, Countering Financing of Terrorism, and Proliferation Financing, 2018 (the "AML Guidelines") were promulgated in June, 2018 and September, 2018 respectively, and the compliance assessment was undertaken within an unreasonably short period of their



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implementation, during which regulated entities were still in the process of understanding and operationalizing the new framework.

- iii. The Appellant duly responded to the Commission's letter dated February 28, 2019, submitted detailed comments on the letter of findings dated July 08, 2019, and penal proceedings were initiated despite clarifications and remedial steps already taken.
- iv. The alleged violation of Regulation 4(a) of the AML Regulations was based on deficiencies in an initial policy draft, which was subsequently updated and approved by the Board of Directors on July 16, 2019, prior to issuance of the SCN.
- v. The penalties were imposed without any finding of actual money laundering or terrorist financing risk, or any adverse customer-level analysis, rendering the action arbitrary and disproportionate.
- vi. The finding of non-compliance with Regulation 18(c)(iii) of the AML Regulations is misconceived, as the Compliance Officer had diligently monitored, reviewed, and updated AML/CFT policy and procedures in line with regulatory requirements.
- vii. The allegation of non-compliance with Regulation 4(d) of the AML Regulations and Regulation 16(9)(e) and (f) of the Licensing Regulations is unsustainable, as an independent Internal Auditor was appointed on May 04, 2020 and internal audit reports were placed before the Board.
- viii. The Respondent acknowledged ongoing compliance efforts, and therefore the imposition of monetary penalties despite subsequent compliance was harsh, disproportionate, and contrary to settled principles of fairness.
- ix. Lastly, the Appellant prayed that the Impugned Order may kindly be set aside.

5. In response to the submissions of the Appellant, the Respondent, *inter alia*, submitted that:

- i. The Appellant's preliminary objections were misconceived, as KYC/CDD and AML obligations had been introduced and implemented since 2012 by the Karachi Stock Exchange (now PSX), and therefore the AML Regulations could not be termed as a new or sudden regulatory regime.
- ii. The Appellant had sufficient time to comply with the AML Regulations, which were promulgated in June, 2018, whereas the thematic review was conducted in February 2019, thereby providing the Appellant approximately eight months to align its systems with the AML Regulations, yet it remained non-compliant at the



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time of review. Further, the issuance of the AML Guidelines and conduct of awareness sessions were merely facilitative measures and the enforcement and implementation of the AML Regulations were not contingent upon such sessions or guidance

- iii. The thematic review did not necessarily require a physical inspection and could validly be conducted through requisition of information and examination of relevant data, pursuant to which the Appellant was found non-compliant.
 - v. Several violations were observed after review, including non-compliance with AML and Licensing Regulations, as the Appellant's AML/CFT policy was updated only after the review, and the existence of actual risk was not a precondition for imposing a penalty.
 - vi. The Respondent clarified that it never alleged absence of an AML/CFT policy, but maintained that the policy in place was not in conformity with the requirements of the AML Regulations.
 - vii. The Appellant contravened Regulation 4(d) of the AML Regulations and Regulation 16(9)(e) and (f) of the Licensing Regulations, as the compliance officer was also performing the role of an internal auditor, thereby negating the requirement of an independent audit function.
 - viii. Despite having adequate time, the Appellant failed to update its processes in accordance with the AML Regulations and did not provide satisfactory information or documentary evidence to establish compliance, which necessitated issuance of the SCN and consequently, the Impugned Order was passed strictly in accordance with law and facts.
 - ix. The Appellant's Authorized Representatives admitted during the hearing before the Respondent that an independent internal auditor was only hired on May 4, 2020, and prior to that, the internal audit function had been carried out by the compliance officer, confirming the established violations.
 - x. The Respondent prayed for dismissal of the Appeal.
6. The Appellate Bench (the "Bench") has heard the arguments of both the parties and perused the record. The Bench notes, at the outset, that the Appellant, being a licensed securities broker, was under a continuing statutory obligation to comply with the AML and the Licensing Regulations, and that compliance with such obligations is fundamental to the integrity, transparency, and stability of the capital market. The Bench further notes that



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remedial or rectification measures taken subsequent to the identification of deficiencies, though indicative of improved compliance culture, do not retrospectively extinguish contraventions that stood established at the relevant time. The Respondent was empowered under the applicable legal framework to assess compliance through a thematic review conducted by requisition of information and examination of records, and such a review need not necessarily entail a physical or on-site inspection. The absence of any finding of actual money laundering or terrorist financing does not, by itself, vitiate regulatory action, as the AML/CFT framework is inherently preventive and risk-based in nature, aimed at strengthening systems and controls to deter misuse of the financial system.

7. The Bench is mindful of the fact that the enforcement under the AML/CFT regime must be proportionate, risk-sensitive, and calibrated in a manner that promotes sustained compliance. International best practices in financial regulation, including risk-based supervision and enforcement, recognize that while deterrence is necessary, regulators should also take into account the size, complexity, and risk profile of regulated entities, as well as their conduct following identification of deficiencies. In particular, for smaller market participants with limited operations, corrective engagement and proportionate sanctions are regarded as effective tools to foster long-term compliance without imposing undue regulatory burden.
8. In the present case, the record reflects that the Appellant is a small brokerage house with a modest operational footprint. It is also evident that following the thematic review and prior to the culmination of adjudicatory proceedings, the Appellant undertook tangible corrective actions, including updating its AML/CFT policy, obtaining approval thereof from its Board of Directors, appointing an independent internal auditor to segregate compliance and audit functions, and taking steps to align its internal controls with the requirements of the AML Regulations and the Licensing Regulations. While these actions do not absolve the Appellant of earlier non-compliance, they demonstrate responsiveness to regulatory concerns and a willingness to strengthen internal governance arrangements.
9. The Bench further observes that a sound regulatory framework seeks not only to enforce compliance but also to provide a conducive and facilitative environment in which stakeholders can conduct business in an orderly and compliant manner. This approach is



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consistent with internationally accepted principles of proportionality, fairness, and regulatory effectiveness, whereby sanctions are tailored to the gravity of violations, the risk posed to the financial system, and the overall conduct of the regulated entity. In circumstances where no aggravating factors, such as deliberate concealment, repeated defiance, or evidence of misuse of the financial system, are present on record, a measure of regulatory leniency, coupled with continued supervisory oversight, is considered appropriate.

10. In view of the foregoing, the Impugned Order is modified to the extent that the total penalty is reduced to Rs. 100,000/- (Rupees One Hundred Thousand only), comprising Rs. 50,000/- (Rupees Fifty Thousand only) in respect of violations of the AML Regulations and Rs. 50,000/- (Rupees Fifty Thousand only) in respect of violations of the Licensing Regulations.

11. The Appeal is disposed of in the above terms with no orders as to costs.


(Muzaffar Ahmed Mirza)
Commissioner


(Zeeshan Rehman Khattak)
Commissioner

Announced on: **09 FEB 2026**