



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 74 of 2020

128 Securities (Pvt.) Limited

...Appellant

versus

Executive Director, Adjudication, SECP

...Respondent

Date of hearing:

April 30, 2025

Present:

For the Appellant:

1. Mr. Shehzad Haider Zaidi
2. Mr. Shafqat Ali

For the Respondent:

1. Mr. Mubasher Saeed Saddozai, Executive Director, Adjudication, SECP
2. Mr. Sohail Qadri, Director/HoD, Adjudication-I, SECP
3. Mr. Naveed Iqbal, Deputy Director, Adjudication-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 74 of 2020 filed by 128 Securities Limited (the Appellant) against the Order dated July 9, 2020 (Impugned Order) passed by the Executive Director, Adjudication Division (the Respondent) under section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the Act).



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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. A review of the Appellant Company was conducted by the Securities and Exchange Commission of Pakistan (the Commission) to assess the Appellant's compliance with Anti-Money Laundering and Countering Financing of Terrorism Regulations, 2018 (AML Regulations). Upon consideration of the review findings, the Respondent issued a Show-Cause Notice (SCN) dated April 27, 2020 and called upon the Appellant to submit a written reply within 14 days. The Appellant submitted a reply dated June 29, 2020, denying any willful contravention of the AML Regulations. A hearing was conducted on July 01, 2020 wherein the Appellant's Chief Executive Officer and Compliance Officers reiterated the written submissions.
3. Upon examining the record and submissions, the Respondent found the Appellant to be non-compliant with Regulations 4(a), 3(2)(d), 5, 6(9), 7, 9, 10, 11, 13, 14, 15, 18, and 18(c)(iii) of the AML Regulations. The Compliance Officer also did not fulfill responsibilities of monitoring, reviewing, and updating the AML/CFT policy, thereby violating Regulations 18 and 18(c)(iii). Consequently, the Respondent in exercise of powers conferred under section 40A of the Act, imposed a penalty of Rs. 175,000/- on the Respondent.
4. The Appellant has preferred this Appeal, *inter alia*, on the grounds that the Respondent, by promulgating the AML Regulations on 13 June 2018, introduced a wholly new regulatory regime that imposed sweeping obligations on all brokers. The Appellant submitted that these requirements, particularly in respect of Customer Due Diligence ("CDD") and ongoing monitoring were neither part of the prior PSX Rule Book (Regulation 4.18) nor sufficiently analogous to the 2012 Karachi Stock Exchange (KSE) KYC/CDD Guidelines, and thus necessitated a period of meaningful familiarization and policy-development by affected entities.



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5. The Appellant further submitted that, despite the Respondent having drafted and issued the AML Regulations, it itself required three months to digest and consolidate their practical application – culminating in the SECP Guidelines of 11 September 2018. During that interregnum, the Appellant and its industry peers were already engaging in extensive consultations to devise compliant internal policies and training programmes. The Appellant stated that it was unreasonable for the Respondent to expect full compliance immediately upon promulgation of a novel regulatory framework.
6. The Appellant argued that, rather than carrying out an on-site inspection of its records and processes, the Respondent chose to initiate a “limited-scope thematic review” by correspondence dated February 28, 2019. The Appellant submitted that verifying CDD and KYC compliance solely through document requests is inherently less effective, and that any perceived gaps could have been addressed more thoroughly and equitably had the Respondent conducted an in-person visit and discussion.
7. The Appellant maintained that penal action can only properly follow a formal inspection order and substantive onsite review under the AML Act, 2010. In the absence of any such inspection order, the issuance of a SCN and the consequent fine were unlawful.
8. The Appellant submitted that no “limited-scope thematic review” as characterized by the Respondent ever took place. The sole correspondence was the Respondent’s information request dated February 28, 2019, which sought data from all brokers on AML, KYC and CDD processes. The Appellant, therefore, contended that the foundation of the SCN was factually and legally unsound.
9. The Appellant submitted that its candid acknowledgment, through a letter dated January 23, 2020, in which certain policy shortcomings were admitted and the Appellants express undertaking to amend its AML/CFT Policy should have been viewed as a mitigating factor rather than a ground for penalty. The Appellant emphasised that it duly revised its policy dated



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July 10, 2019 in line with the SECP regulatory framework, demonstrating good-faith compliance rather than wilful default.

10. The Appellant while concluding the arguments, submitted that, in light of the foregoing, the Impugned Order was vitiated by procedural and substantive irregularities, lacked a proper factual foundation, and penalised the Appellant for bona fide transitional compliance efforts. The appellant accordingly prayed that the Appellate Bench set aside the Impugned Order, absolve the appellant of the fine, and remit the matter to the Respondent for any further review in accordance with lawful inspection procedures.
11. In response to the submissions of the Appellant, the Respondent, *inter alia*, contended that the AML Regulations introduced wholly new requirements is unfounded. The Respondent further submitted that since 2012, brokers have been subject to comprehensive KYC/CDD and AML obligations under PSX Regulation 4.18 and the accompanying explanatory notes. The Respondent further contended that those provisions already mandated internal policies, customer identification, risk profiling, record-keeping, and periodic due-diligence reviews. The Respondent further maintained that the AML Regulations therefore codified and centralized existing exchange requirements rather than creating an entirely novel framework.
12. The Respondent submitted that the appellant was afforded ample time i.e eight months, from June 13, 2018 (promulgation date) to February 28, 2019 (thematic review letter) to align its systems and controls with the AML Regulations. The Respondent contended that the subsequent issuance of SECP Guidelines and awareness sessions were intended solely to facilitate implementation and did not extend or postpone the compliance deadline. The Respondent further submitted that at the time of the review, the Appellant's own records demonstrated persistent non-compliance, therefore, justifying supervisory action.



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13. The Respondent stated that the Appellant failed to produce sufficient documentary evidence policies, training logs, customer files and transaction-monitoring reports – to satisfy the Respondent that its AML/CDD regime was fully compliant.
14. The Respondent contended that the Appellant's assertion that no penalty may be levied in the absence of an onsite inspection, is legally misconceived. The Respondent further clarified that the Section 26 of the AML Act empowers the Respondent to "require such information and conduct such thematic reviews, inspections or examinations as it deems necessary". The Respondent further contended that non-compliance identified through any authorized review process, whether desk-based or on-site, can take enforcement measures without a separate, mandatory inspection order.
15. The Respondent pointed out that the Appellant readily admits the Respondent's solicitation of information regarding its AML/CDD systems. The Respondent contended that whether denominated a "thematic review" or otherwise, the collection and evaluation of data was undertaken for the express purpose of assessing compliance under Regulation 4(5) of the AML/CFT Regulations and the Appellant's failure to demonstrate adherence to those requirements warranted the SCN and the penalty.
16. The Respondent further asserted that the comparison with PSX's 2012 KYC/CDD framework was intended to demonstrate that many AML/CFT obligations were neither unprecedented nor unheralded. The Respondent further submitted that, nonetheless, the Appellant was under a clear duty to satisfy all criteria of the AML Regulations, risk-based CDD, enhanced due diligence, and ongoing monitoring – which it failed to do.
17. The Respondent argued that the Appellant in its letter dated January 23, 2020, has admitted its shortcomings with regard to the compliance of the AML/CFT Policy. The Respondent further submitted that although the Appellant later updated its policy on July 10, 2019, but such post-hoc revision cannot absolve prior breaches warranting sanction. The Respondent emphasised



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that the Impugned Order accurately records the Appellant's policy update but correctly holds that compliance must be contemporaneous with the review period and subsequent remedial measures do not negate earlier contraventions.

18. The Respondent asserted that the Impugned Order is legally sound as a direct consequence of the Appellant's non-compliance with mandatory AML/CFT obligations. The Respondent further argued that whether termed a "thematic review" or an "information call", the exercise was a legitimate regulatory evaluation under the AML Regulations. The Respondent further submitted that no procedural irregularity or legal defect taints the Impugned Order, which should accordingly be upheld in entirety.
19. The Bench has considered the arguments advanced by both parties and examined the record placed before it. The Bench notes that the Commission duly promulgated the AML Regulations dated June 13, 2018, and thereafter issued detailed Guidelines on September 18, 2018 to assist all regulated persons, including brokers, in implementing the new risk-based CDD, enhanced due diligence, and ongoing monitoring obligations. The Bench further notes that though a letter dated February 28, 2019, the Commission solicited information from all brokers, including the Appellant, to gauge compliance. The Bench finds that the Commission's data-gathering exercise, show-cause notice, and personal hearing accorded full procedural fairness under the AML Act, 2010.
20. The Bench observes that although many KYC/CDD principles trace back to PSX Regulation 4.18 of 2012, the AML Regulations introduced a centralized, risk-based framework with enhanced due-diligence requirements that were not previously enforced in identical terms.
21. The Bench is of the view, that the Appellant's initial AML/CFT Policy fell short of several key regulatory requirements and documentary evidence before the Commission at the time of review did not demonstrate full adherence to the 2018 framework. The Bench further notes that the Appellant promptly acknowledged policy shortcomings in its response dated January 23,



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2020; accordingly revised its AML/CFT Policy dated July 10, 2019, in line with the complete regulatory regime and cooperated fully with the Commission throughout the review and hearing process.

22. In the exercise of its discretion, the Bench, while maintaining the finding of non-compliance, considers it just and equitable to moderate the penalty. Therefore, in light of the Appellant's bona fide cooperation, admissions, and remedial actions, the Bench finds it reasonable to reduce the penalty from Rs. 175000/- to Rs. 100000/-. Accordingly, the Appeal stands disposed of with no order as to costs.

(Muzzafar Ahmed Mirza)
Commissioner

(Abdul Rehman Warraich)
Commissioner

Announced on:

14 MAY 2025