



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 77 of 2020

1. M/s. Rural Community Development Programme (RCDP)
2. Muhammad Murtaza (CEO)
3. Ayesha Gulzar (Director)
4. Mubarak Ali Sarwar (Director)
5. Abid Majeed (Director)
6. Muqadas Iqbal (Director)
7. Nabila Mushtaq (Director)
8. Naeem Shahid, (Director)
9. Safdar Ali Malik (Director)

Appellants

Versus

Ali Azeem Ikram, Executive Director/HOD (Adjudication-I)

Respondent

Date of hearing:

April 30th, 2025

Present:

For the Appellant:

1. Mr. Syed Zada Adam Hassan (Authorized Representative)
2. Mr. Iftikhar Sultan (Authorized Representative)

For the Respondent:

3. Mr. Mubashir Saeed, Executive Director, Adjudication Division, SECP
4. Mr. Sohail Qadri, Additional Director, Adjudication-I Department, SECP
5. Mr. Naveed Iqbal, Deputy Director, Adjudication-I Department, SECP

ORDER

1. This Order shall dispose of Appeal No. 77 of 2020 filed by the Company "Rural Community Development Programme (RCDP)" (the "Appellant Company") along with its Chief Executive Officer and eight Directors (collectively, the "Appellants"), against the Order dated July 7, 2020 (the "Impugned Order") passed by the Executive Director/HOD Adjudication-I, Securities and Exchange Commission of Pakistan (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 and Section 282J(1) of the Companies Ordinance,



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1984, in relation to violations of Regulation 6(3), Regulation 6(5a), and Regulation 13(7) of the Securities and Exchange Commission of Pakistan Anti-Money Laundering and Countering Financing of Terrorism Regulations, 2018 (“AML/CFT Regulations, 2018”), and Regulation 9(1) and 9(2)(d) of the Non-Banking Finance Companies and Notified Entities Regulations, 2008 (“NBFC Regulations”).

2. The brief facts of the case are that the Appellant Company was established as a Non-Profit Organisation licensed under Section 42 of the Companies Act, 2017 on November 5, 2015, and has been operating as a Non-Banking Microfinance Company (NBFC) since October 4, 2016. A thematic review (the "Review") was conducted by the Securities and Exchange Commission of Pakistan (SECP), which led to the issuance of a Show Cause Notice (the “SCN”) bearing No. SCD/Adj-I/RCDP/19/2020/284 dated March 16, 2020, under Section 40A of the SECP Act, 1997 and Section 282J(1) of the Companies Ordinance, 1984. The SCN was addressed to both the Appellant Company and its Board of Directors, including the Chief Executive Officer. The Review identified *prima facie* violations of the AML/CFT Regulations, 2018, and the NBFC Regulations. Specifically, it found lapses in the Appellant's client screening and monitoring systems, including the failure to identify and report two proscribed individuals (one listed as a beneficial owner and the other as a nominee) resulting in violations of Regulations 6(3), 6(5a), and 13(7) of the AML/CFT Regulations, 2018, and Regulation 9(1) and 9(2)(d) of the NBFC Regulations. After affording the Appellants an opportunity of hearing and considering the available evidence, the SECP found the Appellant Company and its directors liable for the aforementioned regulatory breaches. Accordingly, through the Impugned Order, a penalty of Rs. 1,000,000/- was imposed on the Appellant Company, and Rs. 125,000/- on each of its eight directors for lack of effective oversight and due diligence.
3. The Appellants challenged the Impugned Order on factual and proportionality grounds. It was contended that the lapses identified, namely, the failure to detect two proscribed persons (one as a beneficial owner and the other as a nominee), the delayed filing of Suspicious Transaction Reports (STRs), and alleged deficiencies in Board oversight, were not the result of any *mala fide* intent or deliberate disregard of regulatory obligations. Rather, these occurred during a transitional period wherein the Appellant was migrating from an outdated MIS to a more advanced “Smart MIS” platform. The Appellants submitted that the proscribed individuals were flagged immediately upon the operationalization of the new system, following which the



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Appellants terminated all business relationships with the concerned clients, submitted STRs, and filed a compliance report dated 28 January, 2020.

4. It was further emphasized by the Appellants that it serves over 245,000 active clients and has extended microfinance services to nearly one million individuals since its inception. In light of the scale of operations, the Appellants argued that the two identified cases must be viewed in proportional context and do not reflect systemic failure. It further informed the Appellate Bench (the "Bench") that internal disciplinary actions were promptly taken, including the termination of the Data Check Officer and formal action against both the IT and Compliance Managers responsible for the oversight.
5. In addition, the Appellants submitted that it has now completed the MIS upgrade, implemented real-time screening tools, and rolled out enhanced training programs on AML/CFT compliance for its staff. Stressing its clean track record, transparent engagement with the Respondent, and swift corrective measures, the Appellants argued that the penalties imposed are excessive and disproportionate. Accordingly, the Appellants requested for the setting aside of the Impugned Order in its entirety in view of the mitigating circumstances.
6. The Respondent refuted the Appellants' grounds for its Appeal and maintained that the Impugned Order was passed on cogent legal and factual grounds. The Respondent submitted that the findings were supported by documentary evidence, including the Appellant's own admissions during the hearing proceedings. It was asserted that the Appellant failed to screen its clients, beneficial owners, and nominees against the proscribed persons lists issued by the United Nations Security Council (UNSC) and the National Counter Terrorism Authority (NACTA), thereby rendering its AML/CFT compliance framework materially ineffective.
7. It was emphasized by the Respondent that the Appellants' written response to their email dated 25 November, 2019, stating that no matches were found in the database, was factually inaccurate. This misrepresentation, according to the Respondent, constituted a serious compliance lapse and amounted to misreporting under the AML/CFT Regulations. The Respondent contended that the Appellants' reliance on specific regulatory instructions to conduct screening was misplaced and contrary to the ongoing and independent due diligence obligations imposed under Regulation 6 of the AML/CFT Regulations, 2018.



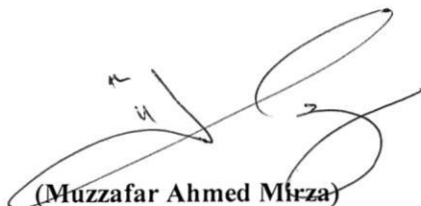
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8. It was further argued by the Respondent that the Appellants' failure to detect the presence of two proscribed individuals, one being a beneficial owner and the other a nominee, prior to entering into business relationships, and its subsequent delay in filing STRs, violated multiple provisions including Regulations 6(3), 6(5a), and 13(7) of the AML/CFT Regulations, 2018, and Regulations 9(1) and 9(2)(d) of the NBFC Regulations. The Respondent further submitted that the Appellant's transition to a 'Smart MIS' system did not absolve it of these obligations. It was argued that interim alternative methods such as manual or Excel-based screening, could and should have been employed during the transition period.
9. The Respondent further pointed to the lack of proactive Board oversight during the relevant period. The Respondent maintained that the Board of Directors failed in its fiduciary duty to supervise the compliance function or to oversee the implementation of AML/CFT systems during the transition. The Respondent further noted that the business relationship with the proscribed individuals was only terminated after SECP intervention and not as a result of the Appellant's internal compliance mechanisms.
10. On the issue of proportionality, the Respondent submitted that the penalties imposed were in line with regulatory precedents and tailored to the specific facts of the case. It was highlighted that in comparable cases involving proscribed persons, higher penalties have been imposed given the significant risk posed to the financial system and national interest. The Respondent thus concluded that the Appellants' request for leniency was unwarranted, and the penalties levied were both justified and consistent with the nature of the contraventions observed.
11. Upon careful consideration of the record, the arguments advanced by both parties, and the mitigating factors presented, this Bench acknowledges that the Appellant experienced a compliance lapse with the AML/CFT regulatory framework during the transition from the older MIS to the 'Smart MIS' system. This transition limited the Appellant Company's screening capabilities at the relevant time. Notably, once the issue was detected, the Appellants took immediate remedial measures by terminating business relationships with the affected clients, submitting STR to the Financial Monitoring Unit, and disciplining the personnel responsible. The Appellant Company has since made substantial improvements to its compliance systems, including enhanced staff training and real-time screening capabilities.



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12. Regarding the individual directors, the Bench finds that they acted in good faith and were not personally responsible for the operational deficiencies of the MIS system. No credible evidence indicates negligence or *mala fide* intent on their part. The directors fulfilled their statutory duties under Section 204 of the Companies Act, 2017, which requires exercising reasonable care, diligence, and good faith in managing the Appellant Company's affairs. Given that oversight of technical systems often falls within management's operational domain, the directors were entitled to rely on assurances and reports from their staff. Their actions, including prompt corrective steps after identification of the issues, demonstrate that they did not wilfully neglect their fiduciary responsibilities. Therefore, the penalties imposed on the individual directors are hereby set aside.
13. However, upon careful weighing of the factual matrix and the mitigating circumstances on record, the Bench is of the view that while a regulatory penalty on the Appellant Company remains warranted, a reconsideration of its quantum is appropriate. The failure to identify and report two proscribed individuals, one a beneficial owner and the other a nominee, was a serious lapse with potential implications for the financial system's integrity and national security. However, the lapse occurred during a transitional phase in which the Appellant was upgrading its MIS infrastructure, and there is credible evidence that immediate remedial steps were taken once the issue was detected, including the termination of business relationships, submission of STRs, internal disciplinary actions, and system-wide compliance enhancements. In view of these mitigating factors, and considering the Appellant's overall cooperative posture and absence of *mala fide* intent, the Bench finds it appropriate to reduce the penalty imposed on the Appellant Company from Rs. 1,000,000/- to Rs. 500,000/-.
14. The Appeal is hereby dismissed with no order as to costs.



(Muzzafar Ahmed Mirza)

Commissioner



(Abdul Rehman Warraich)

Commissioner

Announced on:

07 JUL 2025