



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 78 of 2019

Pearl Securities Limited

.....Appellant

Versus

Commissioner, SMD, SECP

.....Respondent

Date of Hearing:

April 16, 2025

Present:

For the Appellant:

Mr. Imtiaz Haider, Authorized Representative

For the Respondent:

1. Mr. Sohail Qadri, HOD/Director, Adjudication-I, SECP
2. Mr. Muhammad Akram Farooka, Assistant Director, Adjudication-I, SECP

ORDER

1. This Order shall dispose of the Appeal No. 78 of 2019 filed by Pearl Securities Limited (the Appellant), against order dated August 01, 2019 (the Impugned Order), passed by the Commissioner, SMD, SECP (the Respondent), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the Act).
2. Brief facts of the case are that a review of the Appellant was conducted by the Commission under Section 137 of the Securities Act, 2015 to assess its compliance with the requirements prescribed under the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the AML Regulations). Upon conclusion of the said review, a Review Report (the Report) was issued

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on May 07, 2019, identifying several instances of non-compliance with the AML Regulations. The Report revealed that the Appellant was in violation of multiple provisions of the AML Regulations. The Report observed that the Appellant's AML policy did not incorporate the mandatory requirements prescribed under Regulation 3 (Risk Assessment), Regulation 5 (New Products, Practices and Technologies), Regulation 7 (Beneficial Ownership of Legal Persons and Legal Arrangements), Regulation 11 (Simplified Due Diligence), Regulation 12 (Reliance on Third Parties), and Regulation 17 (Correspondent Relationship), thereby constituting a contravention of Regulation 4(a) of the AML Regulations. The Report further stated that the Appellant failed to implement adequate Customer Due Diligence (CDD) measures in respect of eleven clients, in violation of Regulation 6(3) and also failed to document the beneficial owner of one account holder, which constituted a violation of Regulation 6(5) of the AML Regulations. Furthermore, the Report stated that the Appellant had neither maintained sufficient information for the ongoing monitoring of its clients, nor had it developed or implemented an automated alert generation system in terms of Annexure-3 of the AML Guidelines, thereby breaching the provisions of Regulation 13 of the AML Regulations. The Report also stated that the Appellant failed to seek senior management approval to establish the business relationship with six 'high-risk' clients, which is a violation of Regulation 9(4)(a) of the AML Regulations. The Report also highlighted that the Appellant failed to perform the Enhanced Due Diligence (EDD) for eight clients to identify the source of funds/wealth in violation of Regulation 9(4)(b) of the AML Regulations. Lastly, the Report revealed that the Appellant failed to identify one client as a Politically Exposed Person (PEP), which is a violation of Regulation 10(1) of the AML Regulations.

3. In light of the aforementioned non-compliances, Show-cause Notice (SCN) dated June 17, 2019 was issued to the Appellant. The Appellant submitted written replies to the SCN vide letters dated July 02 and July 08, 2019. Hearing in the matter was conducted on July 04, 2019. During the hearing, the Respondent reiterated the submissions made in reply to the SCN. The Respondent concluded the hearing and imposed a penalty of Rs. 250,000/- on the Appellant. The Appellant was further directed to implement a robust client monitoring mechanism, put in place an effective alert generation system to identify red flags of money laundering or terrorist financing, and ensure that the CDD profiles of all clients were completed in accordance with the AML Regulations.



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4. The Appellant has preferred this Appeal, *inter-alia*, on the grounds that the penalty imposed therein was based on unsubstantiated findings, arbitrary assumptions, and in disregard of the fact that the AML Regulations did not prescribe a definitive or mandatory mechanism for compliance. The Appellant contended that the penalty imposed under the Impugned Order for alleged deficiencies in the AML Policy (the Policy) was unwarranted, as the Policy had been updated in accordance with the AML Regulations following observations made by the Respondent, and the very purpose of allowing brokers to formulate their own AML Policies indicated regulatory flexibility. The Appellant further submitted that adequate CDD measures had been implemented for all eleven clients in question, and documentary proof thereof had been provided to the Respondent. The Appellant argued that the details of beneficial ownership of one client had duly been provided through a pay slip, which sufficiently established the ownership. The Appellant further asserted that a functioning ongoing monitoring mechanism in the form of an 'Excel Sheet' was already in place, which had been acknowledged by the Respondent, and the conclusion regarding its inefficiency was based merely on assumptions, without identifying a single instance of non-compliance. The Appellant further stated that the EDD had been carried out for all eight clients and supporting documentary evidence had been duly submitted. The Appellant submitted that since the Policy and monitoring system was already in place, the Respondent should have only given instructions for improvement and should have imposed a penalty only if those instructions were not followed. Lastly, the Appellant submitted that the imposition of penalty in the present circumstances was contrary to the intent and spirit of the AML Regulations and liable to be set aside.
5. In response to the submissions of the Appellant, the Respondent, *inter alia*, submitted that the Appellant had failed to comply with several mandatory provisions of the AML Regulations. The Respondent contended that although the Appellant claimed to have updated its AML Policy after the inspection, the same remained pending approval from its board of directors, and as such, the Appellant was rightly held non-compliant under Regulation 4(a) of the AML Regulations. The Respondent further submitted that while the Appellant had provided an internal report regarding CDD, containing certain details such as residential and legal status, source of income, and account activity, the report was not supported by any verifiable document, nor were the inspection team's observations adequately addressed, thereby constituting a violation of Regulation 6(3) of the AML Regulations. The Respondent argued that the Appellant was specifically asked to submit a

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consent letter from one of the account holder's mother to establish beneficial ownership, which it failed to provide, thus breaching Regulation 6(5) of the AML Regulations. The Respondent further submitted that the Appellant did not produce any evidence of an automated alert generation system capable of detecting money laundering or terrorist financing activities, which reflected the absence of an effective monitoring mechanism in violation of Regulation 13 of the AML Regulations. Lastly, the Respondent submitted that the Appellant had failed to carry out EDD in respect of its 'high-risk' clients by not establishing their source of funds or beneficial ownership, thereby failing to meet the requirements of Regulation 9(4)(b) of the AML Regulations.

6. The Appellate Bench (the Bench) has given due consideration to the arguments advanced by both the Appellant and the Respondent and has carefully examined the available record and the submissions placed before it. It is an established regulatory principle that every securities broker is under a continuous obligation to ensure effective, demonstrable, and consistent compliance with the AML Regulations. The Bench notes that the Appellant, as a regulated entity, was responsible for implementing robust KYC and CDD frameworks, and for taking necessary steps to identify and mitigate risks associated with money laundering and terrorist financing. The record reveals that various regulatory lapses were observed by the inspection team, including deficiencies in the AML Policy, gaps in documentation relating to CDD and beneficial ownership, absence of a functional automated alert generation mechanism, and failure to perform EDD for 'high-risk' clients. These obligations are integral components of an effective AML compliance regime and must be treated accordingly. The Bench also noted the Appellant's claim that the AML Policy was updated after the inspection, relevant documents on CDD and EDD were submitted to the Respondent, and a monitoring system in 'Excel Sheet' form was in place at the time.
7. The Bench concurs with the Respondent's submission that regulatory compliance must be demonstrable at the time of inspection, and that subsequent corrective actions taken by the Appellant do not absolve it of liability for earlier non-compliance. However, the Bench has also taken note of the Appellant's post-inspection remedial efforts, including improvements to its internal compliance framework, enhancement of CDD processes, and adoption of strict client screening and risk assessment procedures.



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8. In view of the foregoing, the Bench, while upholding the findings of non-compliance in terms of the regulatory obligations imposed under the AML Regulations, is of the considered opinion that the nature of these lapses, though significant, do not reflect willful disregard or gross negligence. The Bench, therefore, finds it appropriate to exercise its discretion and reconsider the quantum of the penalty imposed. Accordingly, the penalty of Rs. 250,000/- (Rupees Two Hundred Fifty Thousand only) imposed by the Respondent is reduced to Rs. 150,000/- (Rupees One Hundred Fifty Thousand only). The Appellant is also directed to ensure that all requisite internal policies and procedures are not only updated in line with the AML Regulations but are also formally approved, implemented, and supported by verifiable documentation going forward. In particular, the Appellant shall ensure the deployment of an automated monitoring system capable of generating alerts in real-time, and the maintenance of comprehensive CDD and EDD records in accordance with the law.
9. Accordingly, the Appeal stands disposed of in the above terms, with no order as to costs.

(Abdul Rehman Warraich)
Commissioner

(Mujtaba Ahmad Lodhi)
Commissioner

Announced on:

05 MAY 2025