



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 78 of 2020

Highland Securities (Pvt.) Limited

...Appellant

versus

Executive Director, Adjudication Department-I, SECP.

...Respondent

Date of hearing:

19th February, 2026

Present:

For the Appellant:

Mr. Omer Iqbal Khawaja, Advocate (Authorized Representative)

For the Respondent:

1. Mr. Sohail Qadri, Director, (Adjudication-I, SECP)
2. Mr. Muhammad Faisal, Deputy Director, (Adjudication-I, SECP)

ORDER

1. This Order shall dispose of Appeal No. 78 of 2020 filed by Highland Securities (Pvt.) Limited (the "Appellant") under Section 33 of the Securities and Exchange Commission of Pakistan Act, 1997 ("the SECP Act") against the Order dated July 13, 2020 (the "Impugned Order") passed by the Executive Director, Adjudication-I ("the Respondent") under Section 40A of the SECP Act and Section 150 of the Securities Act 2015.
2. The brief facts of the case are that the Company is a Trading Rights Entitlement Certificate holder of the Pakistan Stock Exchange Limited ("the PSX") and a licensed securities broker with the Securities and Exchange Commission of Pakistan ("the Commission"). Thematic review ("Review") of the company was initiated to review and assess compliance with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Counter Financing of Terrorism Regulations) 2018 ("the AML & CFT Regulations") and its related directives and Securities Brokers (Licensing & Operations) Regulations, 2016 ("Licensing Regulations"). The Review



Securities and Exchange Commission of Pakistan

revealed various non-compliances which included contravention of Regulation 4(d) of the AML & CFT Regulations and Regulations 16(9)(e) and 29(5) of the Licensing Regulations.

3. In light of the aforementioned, a Show-Cause Notice dated May 29, 2020 (the "SCN") was issued to the Company and its Compliance Officer. A reply to the SCN was submitted by the Company on June 27, 2020. Accordingly, the Company was accorded an opportunity of personal hearing on July 1, 2020. Subsequently, the Respondent not being satisfied with the response and stance of the Company imposed an aggregate penalty of Rs.250,000/- (Rupees Two Hundred and Fifty Thousand Only) on the Company with a direction to ensure that its AML & CFT Policy is updated in a timely manner as per the requirements of AML & CFT Regulation.
4. The Company has preferred this Appeal, *inter alia*, on several grounds, including the assertion that the Impugned Order is a non-speaking order that lacks a proper appreciation of the relevant law and facts of the matter. In lieu of this contention, the Authorized Representative for the Company submitted that paragraph 7(ii) and 7 (iii) of the Impugned Order fails to duly acknowledge and evaluate the Appellant's submissions with regard to the compliance function, resource constraints, subsequent rectifications, and detailed internal audit reporting mechanisms. The Authorized Representative contended the findings in the above said paragraphs and asserted that the Respondent rejected the explanations in a summary manner without recording cogent reasons, which shows a lack of evaluation and defeats the very purpose of appellate scrutiny and is contrary to the principles of quasi-judicial adjudication.
5. Moreover, it was submitted that in paragraph 7(i) of the Impugned Order the Respondent explicitly held that the Company "cannot be held accountable in the matter of violation of Regulation 4(a) and 18(c)(iii) of the AML & CFT Regulations." However, in the operative paragraph of the Impugned Order, the Respondent imposed a penalty of Rs. 200,00 (Two Hundred Thousand) under Section 150 of the Act, for the established contravention of AML & CFT Regulations. The Authorized Representative argued that in view of the contradictory stance of the Respondent, the imposed penalty should be considered as null and void.
6. The Authorized Representative, with regard to the assertion concerning the internal auditor's reporting line, submitted that the Respondent misconstrued the documentary record. It was argued that the internal auditor reports to the Board of Directors, a copy of the internal audit report is marked to the Chief Executive Officer only for implementation purposes and does not compromise independence nor contravene Regulation 4(d) of the AML & CFT Regulations and Regulation 16(9)(f) of the Licensing Regulations. It was highlighted that no evidence was brought on record to demonstrate that the CEO exercised control over or interfered with the internal auditor's findings.



Securities and Exchange Commission of Pakistan

7. The Authorized Representative further argued that no wilful contravention or guilty intent has been established. It was submitted that penal provisions under Section 40A of the SECP Act require at least a conscious or deliberate violation. The Authorized Representative relied on the judgment of the Appellate Bench in the *Order dated... Axis Global Limited v. Securities and Exchange Commission of Pakistan*, wherein it was held that penalty can only be imposed where the breach is intentional and not accidental or inadvertent. Furthermore, it was submitted that the alleged deficiencies in the present matter relate merely to the format of compliance reports, periodicity of reporting, and internal reporting lines, and do not disclose any mala fide intention, fraud, concealment, or deliberate evasion of regulatory obligations. It was emphasized that the Appellant acted bona fide, submitted a comprehensive written reply, and cooperated fully during the review.
8. The Authorized Representative further submitted that the Respondent failed to apply the risk-based approach embedded in the AML & CFT framework while penalizing the Company. It was argued that the Company is a small brokerage house with limited clientele, low trading volumes, and clients personally known to the management. The entity-level risk assessment categorized the risk profile as low, and compliance measures were proportionate to the scale and nature of operations. It was contended that applying a uniform compliance standard without considering size, complexity, and risk exposure is inconsistent with the framework of AML & CFT Regulations itself.
9. The learned counsel also contended that the penalty imposed is harsh, excessive, and disproportionate to the nature of the alleged contraventions. It was submitted that the alleged lapses were technical and procedural, caused no prejudice to regulatory objectives, and were neither repeated nor systemic. The Authorized Representative relied on the reported decision "2024 CLD 721", wherein the Appellate Bench reduced the penalty after considering subsequent compliance efforts and the principle of proportionality. It was argued that the Appellant has made sincere efforts to strengthen its compliance framework and has since adopted improved systems, which ought to be considered as mitigating factors. The learned Authorized Representative further denied that any admission of contravention was made by the Appellant's representatives. It was submitted that cooperative explanations during inspection were erroneously construed as admissions. Explanation of facts regarding Company's operations and compliance, it was argued, cannot be equated with acknowledgment of breach.
10. Lastly, it was contended that although the Appellant initially forfeited the personal hearing in good faith, it legitimately expected that its detailed written submissions would be objectively considered. The learned counsel submitted that the Impugned Order reflects that material explanations were not substantively dealt with, thereby affecting the fairness of the adjudicatory process. In view of the foregoing submissions, the Appellant prayed that the Impugned Order dated July 13, 2020 be set



W



Securities and Exchange Commission of Pakistan

aside. Alternatively, it was requested that the penalty be reduced to a nominal amount commensurate with the technical and non-wilful nature of the alleged contraventions, in the interest of justice and proportionality.

11. The Respondent countered the grounds of the Appeal and proffered arguments. The Respondent, in response to the Appellant's contention, categorically denied that the Impugned Order is a non-speaking order or that it lacks appreciation of law and facts. It was submitted that paragraphs 7(ii) and 7(iii) of the Impugned Order clearly record the violations established after due consideration of the Appellant's written reply. The Respondent contended that the explanations regarding compliance function, resource constraints, and subsequent rectifications were duly examined; however, the same were found unsatisfactory in light of the documentary deficiencies observed during review. It was argued that the mere fact that the Respondent did not accept the Appellant's explanations does not render the order unreasoned or arbitrary. The Impugned Order, according to the Respondent, reflects proper application of mind and meets the legal threshold of a speaking order.
12. Further, the Respondent submitted that no contradiction exists in the Impugned Order. It was clarified that while certain alleged violations were not established, other contraventions stood independently proved on the basis of record. The Respondent contended that the operative paragraph of the Impugned Order imposes penalty only for those violations that were conclusively established, and not for the provisions in respect of which benefit was extended to the Company. Therefore, the contention that the penalty is null and void on account of inconsistency is misconceived and devoid of merit.
13. The Respondent further iterated that the internal audit function of the Company was not in conformity with the regulatory requirements. It was submitted that the internal auditor report was co-signed by the internal auditor and the Chief Executive Officer of the Company, indicative of the fact that the internal auditor was not directly reporting to the Board of Directors, which compromises the independence envisaged under Regulation 4(d) of the AML & CFT Regulations read with Regulation 16(9)(f) of the Licensing Regulations. The Respondent argued that independence of the internal audit function is a substantive regulatory requirement and cannot be diluted on the premise that reporting to the CEO was merely for implementation purposes. It was further submitted that the internal audit reports reviewed during proceedings lacked comprehensive aspects of AML & CFT aspects, thereby justifying the finding of non-compliance.
14. Furthermore, the Respondent refuted the contention that proof of willful contravention or *mens rea* is a prerequisite for imposition of penalty under Section 40A of the SECP Act. It was submitted that the regulatory regime governing intermediaries operates on a strict compliance basis and does



Securities and Exchange Commission of Pakistan

not require proof of criminal intent. The reliance placed by the Appellant on *Axis Global Limited ibid.*, was stated to be distinguishable on facts. The Respondent contended that the violations established in the present matter relate to substantive regulatory obligations concerning AML & CFT compliance framework, reporting mechanisms, and internal controls, and cannot be termed as mere technical irregularities. The fact that the Appellant cooperated during proceedings does not absolve it from liability arising from established contraventions.


15. It was further submitted that while the AML & CFT framework incorporates a risk-based approach, categorization as a small brokerage house or having limited clientele does not absolve the Company from statutory obligations relating to compliance reporting, independent audit mechanisms, and internal control systems. The Respondent maintained that the deficiencies identified were structural in nature and not merely attributable to scale of operations.
16. The Respondent denied that the penalty imposed is harsh or disproportionate. It was submitted that the amount of Rs. 200,000/- was imposed after considering the nature of violations and relevant mitigating factors. The Respondent distinguished the reliance placed on the reported decision "2024 CLD 721" and submitted that each case is to be decided on its own facts and circumstances. It was further argued that subsequent remedial measures or improvements in compliance framework do not extinguish liability for violations established during the relevant period. The Respondent also denied that any explanations were misconstrued as admissions; rather, findings were based on documentary record and objective assessment of compliance deficiencies.
17. Lastly, the Respondent submitted that the Appellant voluntarily forfeited the opportunity of personal hearing and cannot subsequently allege procedural unfairness. It was contended that the written submissions were duly considered and reflected in the reasoning of the Impugned Order. The Respondent iterated that the Impugned Order was passed strictly in accordance with law, after due process, and on the basis of material available on record. In view of the foregoing submissions, the Respondent prayed that the Appeal be dismissed and the Impugned Order be upheld in its entirety.
18. The Bench has carefully examined the Impugned Order, the record of proceedings, and the submissions advanced by both parties. A pivotal contention raised by the Appellant relates to an alleged internal inconsistency within the Impugned Order. In this regard, the Appellant has drawn attention to paragraph 7(i) thereof, wherein the Respondent categorically held that the Company "cannot be held accountable in the matter of violation of Regulation 4(a) and 18(c)(iii) of the AML & CFT Regulations." The Appellant has contended that despite this observation, the operative portion of the Impugned Order, imposed a penalty of Rs. 200,000/- (Rupees Two Hundred



Securities and Exchange Commission of Pakistan

Thousand) under Section 40A of the Act for established contraventions of the AML & CFT Regulations, which, according to the Appellant reflects a contradiction.

19. The Bench observes that the Appellant has alleged the existence of a contradiction between the reasoning portion of the Impugned Order and its operative part. However, upon careful examination of the Impugned Order as a whole, the Bench is of the opinion that the alleged discrepancy does not, in fact, exist. In this regard, it is opined that the operative portion of the Impugned Order must be read in conjunction with the reasoning set out in the preceding paragraphs, which adequately distinguish between the unsubstantiated violations of Regulation 4(a) and 18(c)(iii) of the AML & CFT Regulation and the established violations of Regulation 4(d) of the AML & CFT Regulations and Regulation 16(9)(e), 16(9)(f), and 29(5) of the Licensing Regulations, along with the corresponding penalties imposed. In these circumstances, the Bench is satisfied that the Impugned Order, when read as a whole, does not suffer from internal inconsistency or contradiction.
20. In view of the above, the Bench is persuaded that the penalty imposed vide the Impugned Order warrants reduction to the extent of imposition of penalty with regard to the violation of AML & CFT Regulation. The penalty of Rs. 200,000/- (Rupees Two Hundred Thousand) imposed under Section 40A of the SECP Act, 1997 is hereby reduced to 100,000/- (Rupees One Hundred Thousand). However, with regard to the violation of Licensing Regulations, the penalty of Rs. 50,000/- (Rupees Fifty Thousand) is upheld. The Appeal is disposed of with modification to the penalty, with no order as to costs.
21. Any person or party aggrieved by this Order may, within sixty (60) days from the date hereof, prefer an Appeal under Section 34 of the Securities and Exchange Commission of Pakistan Act, 1997, before the competent forum, strictly in accordance with law.


(Zeeshan Rehman Khattak)
Commissioner


(Imtiaz Haider)
Commissioner

Announced on:

10 MAR 2026