



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 80 of 2022

Baba Equities (Pvt.) Limited

..... Appellant

versus

Director/HOD, Adjudication-I, SECP

..... Respondent

Date of Hearing:

April 29, 2026

Present:

For the Appellant:

1. Malik Ghulam Fareed, Director
2. Asad Ali Shaukat, Compliance Officer
3. Ahmed Raza, Authorized Representative

For the Respondent:

1. Mr. Sohail Qadri, Director/HOD, Adjudication Department-I, SECP
2. Mr. Muhammad Faisal, Deputy Director, Adjudication Department-I, SECP

ORDER

1. This Order shall dispose of Appeal No. 80 of 2022 filed by Baba Equities (Pvt.) Limited (the "Appellant"), against the Order dated June 30, 2022 (the "Impugned Order"), passed by the Director/HOD, Adjudication-I, SECP (the "Respondent"), under Section 6(A)(2)(h) of the Anti-Money Laundering Act, 2010 (the "AML Act") read with Regulations 9(b), 11 and sub-clause (o) of Note (i) of Annexure-I of the Securities and Exchange Commission



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of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 (the “AML Regulations”).

2. Brief facts of the case are that the Appellant, Baba Equities (Pvt.) Limited, is a regulated entity being a Trading Rights Entitlement Certificate (TREC) holder of Pakistan Stock Exchange Limited (“PSX”) and a licensed securities broker of the Securities and Exchange Commission of Pakistan (“SECP”). An inspection of the Appellant was carried out by a Joint Inspection Team (“JIT”) to determine its compliance with the Anti-Money Laundering and Countering Financing of Terrorism Regulations, 2020 (the “AML Regulations”) for the period April 1, 2021 to June 30, 2021. The inspection revealed, *prima facie*, that the Appellant had committed certain violations of the AML Regulations, including failure to obtain adequate and commensurate documentary evidence regarding source of income of customers in contravention of sub-clause (o) of Note (i) of Annexure-I; failure to verify customer information through reliable and independent sources in violation of Regulation 9(b); and failure to identify and verify the beneficial ownership of customers in contravention of Regulation 11 of the AML Regulations.
3. In view of the aforesaid observations, the Respondent issued a show cause notice dated March 04, 2022 (the “SCN”) to the Appellant. The Appellant submitted its written reply and supporting explanations, and a hearing in the matter was conducted on May 23, 2022. Consequently, the Respondent concluded that violations of sub-clause (o) of Note (i) of Annexure-I, and Regulations 9(b), and 11 of the AML Regulations stood established and, in exercise of powers conferred under Section 6(A)(2)(h) of the AML Act read with Regulation 31 of the AML Regulations, imposed a penalty of Rs. 40,000 (Rupees Forty Thousand only) upon the Appellant.
4. The Appellant has preferred the instant Appeal, *inter alia*, on the grounds that the impugned Order has been passed in disregard of the material placed on record and suffers from misreading and non-reading of evidence. It was contended that the Appellant had duly provided all relevant documents, including account opening forms, tax returns filed under Section 114(1) of the Income Tax Ordinance, 2001, and wealth statements under Section 116 thereof, which sufficiently established the source of income and beneficial ownership of the clients. The Appellant argued that such documents, being filed before a statutory



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authority i.e., the Federal Board of Revenue, constitute reliable and independent evidence, thereby fulfilling the requirements of sub-clause (o) of Note (i) of Annexure-I as well as Regulations 9(b) and 11 of the AML Regulations.

5. The Appellant contended that the Respondent erred in holding that the Appellant failed to identify beneficial ownership, as the clients themselves were the beneficial owners of the accounts and investments. It was submitted that the financial position of the clients, as reflected in their tax returns and wealth statements, clearly demonstrated that their declared assets exceeded their investments in securities. Therefore, no further inquiry into beneficial ownership was warranted, and the conclusion drawn by the Respondent to the contrary is based on an erroneous appreciation of facts.
6. The Appellant argued that all requisite KYC and Customer Due Diligence (CDD) procedures were duly undertaken and documented, and the same were reviewed by the compliance officer of the Appellant to his satisfaction. It was further submitted that no discrepancy was pointed out by the JIT during the inspection or in the draft inspection report, which indicates that the subsequent findings in the impugned Order are an afterthought and lack factual foundation.
7. The Appellant submitted that the Respondent failed to appreciate that the subject accounts were opened under the Centralized Know Your Customer Organization Regulations, 2017, whereby the National Clearing Company of Pakistan Limited (NCCPL), acting as an independent third party, performs KYC verification and issues a Unique KYC Number (UKN). It was contended that the issuance of UKN in respect of the relevant clients constitutes independent verification of identity, source of income, and beneficial ownership, thereby satisfying the requirements of AML Regulations.
8. The Appellant contended that the transactional record further substantiates its position, inasmuch as all funds received during the relevant period originated directly from the respective clients, and no third-party transactions were identified by the JIT. This, according to the Appellant, conclusively establishes that there existed no undisclosed or third-party beneficial owner, and the findings of the Respondent in this regard are based on mere assumptions rather than evidence.

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9. The Appellant argued that the impugned Order is vitiated by bias and a pre-determined mindset, as the Respondent has allegedly twisted the facts of the case and ignored the explanations furnished by the Appellant. It was submitted that the conclusions drawn are based on misrepresentation and assumptions, rendering the Order unsustainable in law.
10. The Appellant submitted that, even otherwise, the alleged deficiencies, if any, were merely procedural in nature and confined to a limited number of instances, which were duly rectified by the Appellant. It was contended that the imposition of penalty, despite subsequent rectification and absence of any substantive violation, is contrary to the principles of equity and proportionality.
11. The Appellant contended that the impugned Order is harsh, excessive, and liable to be set aside, as it fails to consider the bona fide conduct of the Appellant and the absence of any mala fide intent or systemic failure. It was further submitted that the Respondent failed to exercise discretion judiciously, thereby rendering the Order legally unsustainable.
12. In response to the submissions of the Appellant, the Respondent, *inter alia*, submitted that the impugned Order is a well-reasoned and speaking order, passed after due consideration of the material available on record and in accordance with the applicable provisions of law. It was contended that the findings recorded therein are based on established non-compliances of the AML Regulations and do not suffer from any legal infirmity warranting interference by this Honourable Bench.
13. The Respondent contended that the Appellant has misconstrued the applicable legal framework by referring to the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018, whereas, at the relevant time, the AML Regulations were in force and applicable. It was argued that the impugned Order has correctly proceeded under the applicable regulatory regime, and any argument to the contrary is legally untenable.
14. The Respondent submitted that the Appellant failed to ensure that the documents obtained in respect of the clients' source of income were commensurate with the scale and nature of



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their investment portfolios, as required under Annexure I of the AML Regulations. It was contended that the mere collection of tax returns or wealth statements, without critically examining their adequacy, relevance, and consistency with the volume of transactions undertaken by the clients, does not satisfy the statutory requirement of conducting proper CDD. The Respondent submitted that the Appellant, therefore, failed to establish a reasonable nexus between the declared financial position of the clients and their investment activity, rendering the documentation insufficient and non-compliant with the prescribed regulatory standards.

15. The Respondent further submitted that the Appellant contravened Regulation 11 of the AML Regulations by failing to identify and verify the beneficial ownership of the accounts through independent and reliable documentary evidence. The Respondent emphasized that the obligation to determine beneficial ownership is mandatory and does not arise only in cases of suspicion. The Respondent argued that the Appellant's reliance on assumptions, such as the clients being tax filers or having declared assets, was legally untenable, as the law requires affirmative verification rather than subjective satisfaction. In the absence of documentary proof establishing beneficial ownership at the relevant time, the Appellant failed to meet the objective standard prescribed under the AML framework.
16. The Respondent contended that the Appellant's plea regarding subsequent rectification of deficiencies is misconceived and legally irrelevant, as compliance achieved after the inspection does not absolve the Appellant from liability arising out of prior non-compliances. It was submitted that regulatory compliance must exist at the relevant time, and subsequent corrective measures cannot extinguish established violations.
17. The Respondent submitted that the impugned Order has been passed after affording due opportunity of hearing to the Appellant and after considering its written as well as oral submissions. It was contended that the principles of natural justice have been duly complied with, and the Appellant has failed to demonstrate any procedural irregularity or denial of fair hearing.
18. The Respondent argued that the violations of AML Regulations on part of the Appellant stand duly established on the basis of inspection findings, and the Appellant has not been



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able to rebut the same with credible evidence. It was contended that the impugned Order is founded upon concrete observations recorded during inspection, which clearly demonstrate non-compliance with the regulatory requirements.

19. The Respondent submitted that the allegations of bias, misrepresentation, and pre-determined mindset levelled by the Appellant are baseless and devoid of merit. It was contended that the impugned Order has been passed objectively and strictly in accordance with law, after due evaluation of facts and evidence on record.
20. The Respondent argued that the penalty imposed is justified, proportionate, and commensurate with the nature of violations established against the Appellant. It was submitted that the regulatory framework mandates strict compliance with AML obligations, and any deviation therefrom warrants appropriate enforcement action to ensure integrity of the financial system.
21. The Respondent contended that the Appellant ought not to be permitted to raise additional grounds at the appellate stage, as the same would prejudice the proceedings and is not warranted in the facts and circumstances of the case.
22. The Respondent, lastly, submitted that the impugned Order is fair, just, and in accordance with law, and the present appeal, being devoid of merit, is liable to be dismissed, with the penalty imposed upon the Appellant being upheld in its entirety.
23. 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, is under a continuing statutory obligation to comply with the AML Regulations, and compliance with such obligations is fundamental to the integrity, transparency, and stability of the capital market.
24. The Bench observes that the primary allegation against the Appellant pertains to deficiencies in obtaining adequate documentary evidence regarding source of income and failure to sufficiently verify beneficial ownership of certain clients. In this regard, the



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Bench observes that the Appellant has placed considerable reliance on the fact that it had obtained tax returns and wealth statements of its clients, filed before the Federal Board of Revenue, to substantiate the source of income and beneficial ownership. The mismatch between the annual income and investment made by the clients necessitates further due diligence and identification of the beneficial owner. However, the Bench finds that mere collection of such documents does not, in itself, discharge the statutory obligation cast upon a regulated entity under the AML framework. It is trite law that compliance with regulatory requirements is not a mere formality but entails a substantive and continuous obligation to assess, verify, and establish a reasonable nexus between the declared financial profile of a client and the nature, scale, and pattern of transactions undertaken.

25. The Bench further observes that the AML Regulations require regulated persons not only to obtain information but also to critically evaluate its adequacy, authenticity, and consistency. The Bench finds that the Appellant has failed to demonstrate that any independent assessment was undertaken to correlate the financial position reflected in the tax documents with the volume of investments made by the respective clients. In the absence of such analysis, the reliance placed on tax filings alone is insufficient to meet the prescribed standard of due diligence.
26. The Bench notes the Appellant's contention that the clients themselves were the beneficial owners of the accounts and that no third-party transactions were identified. However, the Bench observes that the obligation to identify and verify beneficial ownership under the AML Regulations is an affirmative and mandatory requirement, which cannot be dispensed with on the basis of assumptions or presumptions. The Bench finds that the Appellant has not brought on record any cogent documentary evidence demonstrating that beneficial ownership was independently verified in accordance with the regulatory requirements at the relevant time.
27. The Bench further observes that the Appellant's reliance on the Centralized Know Your Customer Organization regime and the issuance of UKNs by NCCPL does not absolve it of its independent statutory obligations. The Bench finds that while third-party verification mechanisms may supplement the due diligence process, they do not substitute or dilute the



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primary responsibility of the regulated entity to ensure full compliance with AML requirements.

28. The Bench notes the argument of the Appellant that no discrepancies were pointed out during the inspection or in the draft inspection report. However, the Bench observes that the findings recorded in the impugned Order are based on the material gathered during the inspection process and subsequent evaluation thereof. The Bench finds that the Appellant has not been able to demonstrate that such findings are perverse, arbitrary, or unsupported by the record.
29. The Bench further notes the Appellant's contention regarding subsequent rectification of deficiencies. In this regard, the Bench observes that compliance achieved after the relevant period does not obliterate or cure the violations that stood established at the time of inspection. The Bench finds that regulatory compliance must exist contemporaneously with the activity in question, and any subsequent remedial measures, though relevant for certain considerations, do not negate the occurrence of prior non-compliance.
30. The Bench observes that the plea of bias and pre-determined mindset raised by the Appellant is not supported by any substantive material on record. The Bench finds that the impugned Order has been passed after affording due opportunity of hearing to the Appellant and after considering its submissions, both written and oral. There is nothing on record to suggest any violation of the principles of natural justice or procedural impropriety.
31. The Bench further observes that the Respondent has correctly applied the relevant provisions of the AML Regulations as were in force during the material time. The Bench finds that the Appellant's contention regarding applicability of a different regulatory framework is misconceived and does not affect the validity of the impugned Order.
32. The Bench finds that the violations of the AML Regulations, as recorded in the Impugned Order, stand duly established on the basis of material available on record. The Bench observes that the Appellant has failed to rebut the findings with credible and convincing evidence or to demonstrate any legal infirmity in the reasoning adopted by the Respondent.



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33. The Bench further observes that the penalty imposed by the Respondent is already on the lower side, keeping in view the nature and extent of the violations established. The Bench finds that the quantum of penalty is neither excessive nor disproportionate and does not warrant any interference by this Bench.
34. Accordingly, the Bench holds that the impugned Order has been passed in accordance with law, after due consideration of the relevant facts and applicable regulatory provisions, and does not warrant any interference. The findings recorded therein are upheld, and the Appeal, being devoid of merit, is liable to be dismissed.
35. 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 SECP Act, before the competent forum, strictly in accordance with law. Accordingly, the Appeal is disposed of in the above terms with no order as to costs.

(Imtiaz Haider)
Commissioner

(Muhammad Ali Farid Khwaja)
Commissioner

Announced on:

07 MAY 2026