



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 87 of 2020

Sherman Securities (Pvt.) Limited

..... Appellant

versus

Executive Director, Adjudication Department, SECP

..... Respondent

Date of Hearing:

March 05, 2026

Present:

For the Appellant:

Muhammad Junaid A. Chauhan, 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. 87 of 2020 filed by Sherman Securities (Pvt.) Limited (the "Appellant"), against Order dated July 20, 2020 (the "Impugned Order"), passed by the Executive Director, Adjudication Department, SECP (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the "SECP Act") read with Regulations 4(a), 6(3)(c), 6(4), 7(1)(b), 11(2) and 13(1) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the "AML Regulations").
2. Brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate ("TREC") holder of Pakistan Stock Exchange Limited ("PSX"). An inspection was carried

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out to determine the compliance status of the regulatory requirements contained in the AML Regulations. The inspection revealed that the Appellant had, *prima facie*, committed the following violations of the AML Regulations:

- i. The Appellant failed to maintain a centralized database of its clients, thereby violating Regulation 4(a) of the AML Regulations.
 - ii. The Appellant failed to conduct NADRA *Verisys* verification and submit evidence regarding the source of income/funds of one of its clients, in contravention of Regulation 6(4) of the AML Regulations.
 - iii. The Appellant failed to conduct Customer Due Diligence (“CDD”) in respect of its clients, thereby violating Regulation 7(1)(b) of the AML Regulations.
 - iv. The Appellant failed to provide evidence or justification for categorizing four of its customers as ‘low risk’, in violation of Regulation 11(2) of the AML Regulations.
 - v. The Appellant failed to perform Customer Due Diligence (“CDD”) as required, thereby contravening Regulations 6(3)(c) and 13(1) of the AML Regulations.
3. In view of the aforesaid observations, the Respondent issued a show-cause notice dated April 27, 2020 (the “SCN”) to the Appellant. The Appellant submitted a written reply along with supporting documents on June 15, 2020. Hearing in the matter was conducted on June 24, 2020. Upon consideration of the material on record, the Respondent held that although substantial supporting documents had been furnished by the Appellant, the same did not sufficiently establish compliance at the relevant time. Accordingly, the Respondent concluded that violations of Regulations 4(a), 6(3)(c), 6(4), 7(1)(b), 11(2) and 13(1) of the AML Regulations stood established and, in exercise of powers conferred under Section 40 of the SECP Act, imposed a penalty of Rs. 650,000 (Rupees Six Hundred and Fifty Thousand only) upon the Appellant, along with directions to strengthen its AML/CFT systems and controls.
4. The Appellant has preferred the instant Appeal on the following grounds, *inter-alia*, that the Impugned Order has been passed in a hasty and mechanical manner without proper appreciation of the facts and applicable law. It was submitted that the observations contained in the SCN were largely a reproduction of earlier findings communicated through

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the letter of findings, and despite the Appellant having furnished detailed written responses along with supporting documentary evidence, the Respondent failed to properly consider the same while passing the Impugned Order.

5. The Appellant contended that the Respondent failed to appreciate that proceedings relating to substantially the same matter had already been initiated earlier by the Commissioner (Securities Market Division), who had issued a SCN and subsequently passed an order imposing a penalty. The said order had already been challenged by the Appellant before the Appellate Bench and the appeal was pending adjudication. It was argued that the subsequent SCN issued by the Respondent was substantially identical to the earlier notice and therefore amounted to taking cognizance of the same matter again, which, according to the Appellant, was impermissible in law.
6. The Appellant further argued that the Respondent lacked lawful jurisdiction to initiate proceedings under the AML Regulations. It was submitted that the AML Regulations were allegedly *ultra vires* the provisions of the SECP Act and the Anti-Money Laundering Act, 2010, as the Commission did not possess the statutory authority to promulgate such regulations in matters relating to anti-money laundering. According to the Appellant, the powers of the Commission to frame regulations are confined to matters necessary for carrying out the purposes of the SECP Act, and issues relating to money laundering fall outside the scope of such authority.
7. In continuation of the aforesaid submissions, the Appellant asserted that matters relating to anti-money laundering fall within the exclusive domain of the Financial Monitoring Unit (FMU) established under the Anti-Money Laundering Act, 2010. It was contended that the FMU has the statutory mandate to frame regulations and administer matters pertaining to anti-money laundering, and therefore the initiation of proceedings by the Commission under the AML Regulations was without lawful authority.
8. The Appellant further submitted that the Respondent had incorrectly observed that the Appellant had admitted non-compliance with the AML Regulations on account of maintaining a large client base. According to the Appellant, no such admission had ever been made either in its written replies or during the course of the hearing before the

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Respondent. On the contrary, it was consistently maintained that the Appellant had complied with the applicable regulatory requirements.

9. It was also contended that the Respondent had erred in concluding that the Appellant had carried out customer due diligence only after the inspection conducted by the regulatory authorities. The Appellant submitted that customer due diligence and know-your-customer procedures had always been conducted at the time of opening customer accounts, and that the Appellant maintained a strict policy whereby accounts were not opened without obtaining the requisite information and supporting documentation.
10. The Appellant further argued that the Impugned Order was a non-speaking order, as it merely reproduced portions of the SCN without providing a proper explanation as to how the Appellant had violated the AML Regulations. It was contended that the Respondent failed to record reasons demonstrating how the alleged violations were established on the basis of the material available on record.
11. The Appellant also disputed the findings regarding the alleged failure to ascertain beneficial ownership and source of funds of its customers. It was submitted that the AML Regulations themselves provide that customer due diligence may be conducted on the basis of documents, data, or information obtained from the customer. According to the Appellant, the documents obtained from its clients—such as corporate filings, board resolutions, identification documents, and financial information—were sufficient to satisfy the regulatory requirements.
12. It was further argued that the Appellant had established internal procedures for determining the risk profiles of its customers and that such categorization was carried out in accordance with its internal policy and monitoring mechanisms. The Appellant submitted that the AML Regulations permit regulated entities to devise their own risk assessment policies, and therefore the Respondent had erred in arbitrarily questioning the risk classification assigned by the Appellant without providing any specific criteria or justification.
13. Lastly, the Appellant submitted that it maintained internal controls designed to mitigate the risk of money laundering, including policies whereby cash transactions were not accepted

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and payments were conducted through banking channels. According to the Appellant, these measures demonstrated its commitment to regulatory compliance and reduced the likelihood of any illicit financial activity.

14. In response to the submissions of the Appellant, the Respondent, *inter-alia*, submitted that the preliminary findings of the inspection conducted by the Joint Inspection Team were duly shared with the Appellant and the Appellant was found to be non-compliant with the provisions of the AML Regulations during the relevant review period. It was contended that the SCN was issued after due consideration of the inspection findings and the Appellant was afforded an adequate opportunity to submit its written response and to present its case during the hearing. The Respondent submitted that the Impugned Order was passed after following due process of law and therefore the contention of the Appellant that the Impugned Order had been passed mechanically or without proper appreciation of the material on record is incorrect and devoid of merit.
15. The Respondent further submitted that the Appellant's contention regarding parallel proceedings was misconceived. It was argued that the earlier proceedings initiated by the Commissioner (Securities Market Division) pertained to violations committed during a different period, whereas the present proceedings arose from a subsequent inspection which revealed fresh instances of non-compliance with the AML Regulations. According to the Respondent, the pendency of an earlier appeal before the Appellate Bench did not bar the Respondent from initiating proceedings in respect of new or repeated violations. It was therefore contended that the proceedings culminating in the Impugned Order did not amount to double punishment nor were they in violation of Article 13 of the Constitution.
16. The Respondent also controverted the Appellant's challenge to the jurisdiction of the Commission to promulgate the AML Regulations. It was submitted that the Commission was fully competent to issue the AML Regulations under the applicable statutory framework. In this regard, reliance was placed on Section 6(4)(i) of the Anti-Money Laundering Act, 2010, which authorizes the Financial Monitoring Unit to recommend regulatory authorities to issue regulations relating to customer due diligence and record keeping in order to combat money laundering and financing of terrorism. It was contended that the AML Regulations were promulgated by the Commission pursuant to such

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recommendation and in exercise of powers conferred under Sections 20(4) and 40 of the SECP Act, 1997.

17. The Respondent further submitted that the Appellant's contention that the Financial Monitoring Unit alone possessed the authority to frame regulations under the AML Act was misconceived. It was argued that although the Financial Monitoring Unit may exercise regulatory powers under the AML Act, the Commission is empowered to frame regulations governing entities operating under its regulatory ambit upon recommendation of the Financial Monitoring Unit. Accordingly, it was contended that the AML Regulations were validly promulgated and could not be regarded as *ultra vires* either the SECP Act or the AML Act.
18. With respect to the Appellant's assertion that it had not admitted any non-compliance, the Respondent submitted that the record clearly reflected that the Appellant had failed to comply with the requirements of the AML Regulations at the time of inspection. According to the Respondent, the written response submitted by the Appellant itself indicated that certain regulatory requirements had not been fulfilled during the relevant period and that compliance was attempted only after the inspection.
19. The Respondent further argued that the Appellant's claim that customer due diligence and know-your-customer procedures had always been conducted at the time of opening customer accounts was not supported by the record. It was submitted that the material available on record demonstrated that the Appellant had failed to carry out proper verification and due diligence in respect of certain clients during the relevant period.
20. The Respondent also disputed the Appellant's contention that the Impugned Order was a non-speaking order. It was submitted that the Impugned Order clearly explained the instances of non-compliance committed by the Appellant and recorded the reasons for concluding that the Appellant had violated the AML Regulations.
21. It was further submitted that the Appellant had failed to properly verify the beneficial ownership and source of funds of certain clients. The Respondent contended that the Appellant had relied merely on documents provided by the clients without undertaking

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- adequate verification as required under the AML Regulations, and therefore the requirements relating to customer due diligence had not been fulfilled.
22. The Respondent also submitted that the Appellant had failed to provide proper justification for assigning a 'low-risk' category to certain clients. According to the Respondent, the Appellant had relied upon internal checklists signed by compliance personnel, which could not substitute the requirement of recording specific justification for assigning risk categories under the AML Regulations.
23. The Respondent further submitted that the Appellant had itself acknowledged in its written reply that certain compliance measures were undertaken only after the inspection. It was contended that such post-inspection compliance could not cure the regulatory violations that existed during the relevant review period.
24. In light of the foregoing submissions, the Respondent prayed that the Impugned Order had been passed in accordance with law and after due consideration of the material available on record. The Respondent therefore requested that the Appeal be dismissed and the Impugned Order be upheld.
25. 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, was 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.
26. One of the principal contentions raised by the Appellant relates to the legality of the AML Regulations which have been alleged to be *ultra vires* the provisions of the SECP Act and the Anti-Money Laundering Act, 2010 ("AML Act"). The Bench has carefully examined this contention. In this regard, the Bench notes that the Commission is a regulatory authority recognized under the AML Act and forms part of the institutional framework responsible for regulating reporting entities operating under its jurisdiction. Furthermore, Section 6(4)(i) of the AML Act empowers the Financial Monitoring Unit ("FMU") to recommend to regulatory authorities the issuance of regulations necessary for combating

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money laundering and financing of terrorism, particularly in relation to customer due diligence and record-keeping obligations. The relevant part of Section 6 of the AML Act is reproduced below for reference;

"6. Financial Monitoring Unit.- (4) The FMU shall exercise the following powers and perform the following functions, namely:-

(i) to recommend to the regulatory authorities of reporting entities to issue regulations as considered necessary in the context of combating money laundering and financing of terrorism in the areas of customer due diligence and ancillary record-keeping;"

The AML Regulations were promulgated pursuant to such recommendation and in exercise of the powers conferred upon the Commission under Sections 20(4)(w) and 40 of the SECP Act. In view thereof, the Bench is does not agree with the contention of the Appellant that the AML Regulations are *ultra vires* the governing statutory framework.

27. The Bench has also considered the Appellant's submission that the proceedings culminating in the Impugned Order amount to double punishment in view of the earlier proceedings initiated by the Commissioner (Securities Market Division). The Respondent has, however, contended that the earlier proceedings related to violations observed during a different period, whereas the present proceedings arose from a subsequent inspection which revealed further instances of non-compliance. The Bench finds merit in the Respondent's contention that regulatory action may validly be taken in respect of separate instances of non-compliance identified during different review periods. Accordingly, the initiation of the present proceedings cannot be regarded as violative of Article 13 of the Constitution.

28. The Bench has further examined the competing submissions of the parties regarding the alleged violations of the AML Regulations. The record reflects that during the inspection various deficiencies were identified including failure to maintain a centralized database of clients, failure to validate identity documents through NADRA *Verisys* in certain instances, lack of documentary evidence regarding source of income or funds for one client, failure to properly verify beneficial ownership, absence of written justification for assigning 'low-risk' categorization to certain clients, and deficiencies in performing ongoing customer due diligence.



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29. The Bench notes that during the adjudication proceedings the Appellant contested the observations of the inspection and submitted written explanations and supporting material. However, the Impugned Order records that the Appellant admitted certain deficiencies relating to compliance with the AML Regulations and was unable to provide evidence demonstrating that the required compliance measures had been in place at the time of inspection. In regulatory regimes relating to anti-money laundering and countering financing of terrorism, compliance obligations are required to be fulfilled on a continuing basis and at the time the relevant customer relationships are established. Consequently, deficiencies existing during the relevant review period cannot be disregarded merely on the ground that explanations were subsequently furnished.
30. At the same time, the Bench observes from the record that certain corrective measures were undertaken by the Appellant during the course of the proceedings. In particular, the record reflects that in relation to three identified instances involving deficiencies in ongoing customer due diligence, the Appellant obtained the necessary documentation in two cases subsequent to the inspection by providing copies of financial statements of the relevant clients. In respect of the third instance, the Appellant informed the adjudicating officer that the client had remained inactive for a considerable period and could not be contacted despite efforts made by the Appellant.
31. The Bench further notes that during the proceedings the Appellant also provided certain supporting documents, including audited financial statements of clients, and undertook that going forward it would ensure compliance with the applicable regulatory framework, particularly with regard to recording justification for categorizing customers as 'low risk' and strengthening its AML/CFT compliance procedures.
32. Having considered the entirety of the material placed on record, the Bench is of the view that the findings recorded in the Impugned Order regarding contraventions of the AML Regulations cannot be said to be without basis. The regulatory deficiencies identified during the inspection therefore stand established. However, the Bench is also mindful of the fact that the Appellant undertook certain corrective steps during the course of the proceedings and partially complied with the regulatory requirements after the inspection.



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33. In the circumstances of the present case, the Bench considers that while regulatory lapses on the part of the Appellant have been established, the quantum of penalty imposed through the Impugned Order warrants reconsideration. Accordingly, while maintaining the findings recorded by the Respondent with regard to the violations of the AML Regulations, the Bench deems it appropriate to reduce the penalty imposed upon the Appellant.

34. In view of the foregoing, the Impugned Order is modified to the extent that the penalty is reduced to Rs. 325,000/- (Rupees Three Hundred and Twenty-Five Thousand only).

35. The Appeal is disposed of in the above terms with no orders as to costs.

(Muzaffar Ahmed Mirza)
Commissioner

(Muhammad Ali Farid Khwaja)
Commissioner

Announced on:

12 MAR 2026