



Securities and Exchange Commission of Pakistan

BEFORE APPELLATE BENCH

In the matter of

Appeal No. 91 of 2020

M/s General Investments & Securities (Pvt.) Limited

Appellant

versus

The Executive Director, Adjudication-1 SECP, Islamabad

Respondent

Date of hearing:

March 12, 2025

Present:

For the Appellant:

1. Mr. Sohail Sardar

For the Respondent:

1. Mr. Sohail Qadri (Director, Adjudication – I), SECP
3. Mr. Hammad Ahmed, Assistant Director, Adjudication Department -I, SECP

ORDER

1. This Order disposes of Appeal No. 91 of 2020 filed by General Investment & Securities (Private) Limited (the “Appellant”) against the Order dated July 15, 2020 (the “Impugned Order”) passed by the Executive Director, Adjudication Department-I, Securities and Exchange Commission of Pakistan (the “Respondent”) under Section 40A of the Securities and Exchange Commission of Pakistan Act, 1997 (the “SECP Act”) for alleged contraventions of Regulations 6(3)(c), 6(4) and 13(1) of the Securities and Exchange Commission of Pakistan (Anti-Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the “AML Regulations”).



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2. The brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate (TREC) holder of the Pakistan Stock Exchange Limited (“PSX”) and is licensed as a securities broker with the Securities and Exchange Commission of Pakistan (SECP). A limited-scope inspection (the “Inspection”) of the Appellant was conducted by a Joint Inspection Team (“JIT”) to review the Appellant’s compliance with the requirements of the AML Regulations for the review period from October 01, 2019 to December 31, 2019 (the “Review Period”). The Inspection report identified certain deficiencies, including failure to establish appropriate sources of funds and conduct ongoing monitoring of certain customer accounts where the level of trading activity was not commensurate with the customers’ declared income, which are in violation of Regulations 6(3)(c) and 13(1) of the AML Regulations, and failure to verify identity documents of certain customers through the NADRA *Verisys* system in terms of Regulation 6(4) read with Annexure-I of the AML Regulations. Consequently, the Respondent initiated proceedings through Show-Cause Notice dated June 04, 2020 (the “SCN”). After considering the written submissions of the Appellant, the Respondent, through the Impugned Order, held the Appellant liable for the aforesaid contraventions and imposed a penalty of Rs. 200,000 under Section 40A of the SECP Act.
3. The Appellant submitted that the Impugned Order suffers from misappreciation of facts and circumstances of the case and that the findings recorded therein do not properly take into account the explanations and supporting material placed on record in response to the SCN and during the course of adjudication proceedings.
4. With respect to the alleged violation of Regulations 6(3)(c) and 13(1) of the AML Regulations concerning establishment of source of funds and ongoing monitoring of clients’ transactions, the Appellant submitted that the observations of the JIT were limited to two client accounts. In respect of Account No. 1866, it was contended that documentary evidence of the client’s income had been obtained at the time of account opening, reflecting a monthly salary of US\$ 3,000, which approximately amounted to Rs. 450,000. The Appellant submitted that during the Review Period the trading activity in the said account amounted to approximately Rs. 220,000 while a credit balance of Rs. 1,000,000 was lying in the account as of December 31, 2019. According to the Appellant, the trading activity was therefore commensurate with the declared income and financial capacity of the client.



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5. The Appellant further submitted that with respect to Account No. 2647, the client was engaged in the business of spices trading, which involves transactions of significant value. It was contended that the client had diverted part of his investment into the stock market during April, 2018 when market conditions were comparatively low. To substantiate the client's financial capacity, the Appellant stated that a receipt dated April 14, 2018 issued by a trader to whom spices were supplied by the client had been provided as evidence of the client's business activity and income source. The Appellant, therefore, maintained that the trading activity in the said account was consistent with the client's business profile and financial standing.
6. The Appellant also submitted that monitoring of clients' trading activities was carried out through an automated software system known as "SSS", developed by LSE Financial Services and approved by the SECP. According to the Appellant, the system was designed to monitor client profiles and trading activities, however, the earlier version of the software did not generate alerts to identify material departures between trading activity and declared sources of funds. The Appellant submitted that modification of the software was beyond its control and that subsequent upgrades introduced by the Pakistan Stock Exchange Limited in 2020 incorporated additional monitoring features, including automated alerts when trading activity exceeded a client's financial profile. The Appellant maintained that it had complied with the regulatory framework to the extent possible within the limitations of the software system in place during the Review Period.
7. The Appellant further contended that no loss to the government exchequer or any other institution had resulted from the trading activity in the two accounts identified in the Inspection findings. It was submitted that the Appellant had informed the Respondent during the adjudication proceedings that the limitations of the monitoring software were beyond its control and had requested that the SCN be waived in light of the circumstances. However, according to the Appellant, the Respondent did not adequately consider this explanation while passing the Impugned Order.
8. Regarding the alleged violation of Regulation 6(4) of the AML Regulations relating to verification of identity documents through the NADRA *Verisys* system, the Appellant submitted that the Inspection report identified sixteen instances where such verification had not been carried out. The Appellant contended that five of the accounts identified had been





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opened during the year 2019 and that, since June 2019, the Appellant had been verifying newly opened accounts through the NADRA *BIOSYS* system.

9. The Appellant further submitted that initially it had obtained an identification facility from NADRA which allowed verification of only ten accounts per month. Given that the Appellant maintained more than one thousand client accounts, it would have taken several years to complete verification of all existing accounts through the available facility. In order to address this issue, the Appellant stated that it had applied for a Corporate ID from NADRA to enable verification of a larger number of accounts; however, due to delays arising from the COVID-19 situation and procedural requirements relating to submission of certified documentation, the Corporate ID had not been issued during the relevant period.
10. The Appellant contended that the delay in completing verification of legacy accounts through the NADRA *Verisys* system was, therefore, attributable to circumstances beyond its control, including limitations of the verification facility and delays in issuance of the Corporate ID by NADRA. It was submitted that the Appellant had explained these circumstances during the adjudication proceedings and had requested that the SCN be waived. However, the Respondent nevertheless proceeded to impose the penalty through the Impugned Order.
11. In view of the foregoing submissions, the Appellant maintained that the alleged deficiencies had been adequately explained and that the circumstances of the case did not warrant imposition of the penalty. The Appellant, therefore, requested that the Appellate Bench set aside the Impugned Order and waive the penalty imposed.
12. The Respondent contended that the present Appeal is misconceived and liable to be dismissed as the Impugned Order was passed strictly in accordance with the applicable provisions of law after due consideration of the material available on record and the submissions made by the Appellant during the adjudication proceedings.
13. The Respondent submitted that the Appellant's contentions regarding the alleged violation of Regulations 6(3)(c) and 13(1) of the AML Regulations are not tenable. It was contended that although the Appellant has stated that it introduced a risk-based rating sheet and initiated periodic review of high-volume transactions from July 2020, the AML Regulations had been promulgated in June, 2018. Therefore, the Appellant was required to adopt appropriate



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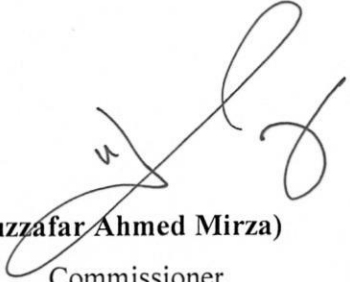
policies and procedures and implement a comprehensive ongoing monitoring mechanism well before the Review Period. The Respondent argued that failure to implement such monitoring mechanisms for a considerable period after the promulgation of the AML Regulations reflects negligence and laxity on the part of the Appellant in complying with the AML regulatory framework.

14. The Respondent further submitted that the Inspection findings clearly revealed instances where the Appellant had not obtained adequate evidence relating to the sources of funds or income of certain clients and had failed to conduct ongoing monitoring of client accounts in relation to their declared financial profiles. According to the Respondent, the Appellant was unable to provide satisfactory justification for these deficiencies during the adjudication proceedings, and, therefore, the finding of contravention of Regulations 6(3)(c) and 13(1) of the AML Regulations was correctly recorded in the Impugned Order.
15. With respect to the alleged violation of Regulation 6(4) of the AML Regulations relating to verification of identity documents through the NADRA *Verisys* system, the Respondent submitted that the Appellant itself acknowledged that the *Verisys* system was installed only on July 02, 2020 and that verification of clients had not been carried out prior to that date. The Respondent argued that the Inspection findings demonstrated that the Appellant had failed to conduct *Verisys* verification of its clients during the relevant period, which constituted a clear contravention of Regulation 6(4) read with Annexure-I of the AML Regulations.
16. The Respondent contended that the explanations advanced by the Appellant regarding installation of the *Verisys* system and subsequent plans to verify legacy accounts did not negate the deficiencies observed during the Inspection. It was further submitted that regulated persons are required to comply with the AML Regulations at all times and ensure that proper systems and controls are in place to verify the identity of their clients in accordance with the regulatory requirements.
17. In view of the foregoing submissions, the Respondent maintained that the Impugned Order is a reasoned and speaking order passed in accordance with law after providing the Appellant an adequate opportunity of hearing. The Respondent, therefore, prayed that the present Appeal be dismissed and the Impugned Order be upheld.



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18. Upon examination of the record and the submissions made by the parties, the Bench observes that the Inspection conducted by the JIT identified deficiencies in the Appellant's compliance with Regulations 6(3)(c), 13(1) and 6(4) of the AML Regulations during the Review Period. The Appellant has not been able to displace these findings with sufficient documentary evidence, and the Bench finds no infirmity in the Respondent's conclusion that the Appellant was in contravention of the aforesaid provisions.
19. The Bench, however, takes into account that while the AML Regulations, 2018 had been in force, their implementation across the market was still evolving, and regulated persons were in the process of aligning their systems and controls with the prescribed requirements. The Appellant has attributed certain deficiencies to limitations in the monitoring software and constraints in access to verification facilities; however, such factors, while indicative of operational challenges, do not absolve a regulated person from its statutory obligations, particularly under Regulation 6(4) of the AML Regulations. It is further noted that the Appellant has taken steps subsequent to the Inspection to address the identified deficiencies and improve its compliance framework, which suggests that the earlier shortcomings arose during the implementation phase rather than from any deliberate disregard of regulatory obligations.
20. In view of the foregoing, and noting that the material on record indicates that the Appellant has taken steps subsequent to the Inspection to improve its compliance framework, the Bench is of the view that while the findings of contravention are to be upheld, the mitigating factors warrant consideration in determining the quantum of penalty. Accordingly, the penalty imposed through the Impugned Order is reduced from Rs. 200,000 to Rs. 100,000, and the Appeal is disposed of in the above terms with no order as to costs.


(Muzzafar Ahmed Mirza)
Commissioner


(Imtiaz Haider)
Commissioner

Announced on: **18 MAY 2026**