



Securities and Exchange Commission of Pakistan

BEFORE THE APPELLATE BENCH

In the matter of

Appeal No. 94 of 2023

Rafi Securities (Pvt.) Limited

..... Appellant

versus

Director/HoD, Adjudication Department-I, Adjudication Division, SECP

..... Respondent

Date of Hearing:

May 12, 2026

Present:

For the Appellant:

1. Mr. Syed Qaseem Zaid
2. Mr. Syed Mudabbir Hussain Jafri
3. Ms. Nadia Parveen Rashdi

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. 94 of 2023 filed by Rafi Securities (Pvt.) Limited (the "Appellant"), against the order dated May 17, 2021 (the "Impugned Order"), passed by the Director/HoD, Adjudication Department-I, Adjudication Division, SECP (the "Respondent"), under Section 40A of the Securities and Exchange Commission of Pakistan, 1997 (the "SECP Act").



Securities and Exchange Commission of Pakistan

2. Brief facts of the case are that the Appellant is a Trading Rights Entitlement Certificate (“TREC”) holder of the Pakistan Stock Exchange (“PSX”) and licensed as a securities broker by the Securities and Exchange Commission of Pakistan (the “Commission”). An Inspection (the “Inspection”) of the Appellant was conducted by the Joint Inspection Team (“JIT”) pursuant to the Inspection order dated July 10, 2020, to ascertain compliance of the Appellant with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (the “AML Regulations”). The Inspection covered the period April 01, 2020 to June 30, 2020. The Inspection revealed that the Appellant had failed to appropriately identify and assign risk to the clients, authorized persons and members of the Board of Directors associated with high-risk jurisdictions, maintain and demonstrate an adequate database and screening mechanism for beneficial owners, update and implement an effective AML/KYC Policy incorporating provisions relating to beneficial ownership, Targeted Financial Sanctions (“TFS”), and compliance reporting mechanisms, and validate identity documents of certain clients, nominees, authorized persons and directors through NADRA *Verisys*. The Inspection further revealed deficiencies in Customer Due Diligence (“CDD”), Know Your Customer (“KYC”) and Enhanced Due Diligence (“EDD”) measures in respect of various individual and corporate accounts, including non-availability of KYC forms, evidence regarding source of income/funds, beneficial ownership information, Form-A, Form-29 and other requisite supporting documents. The aforesaid acts and omissions were found to be in contravention of Regulations 3(1)(a) and (c), 4(a), 6(3)(a), 6(3)(c), 6(4), 7(1)(a)(b)(c), 9(4), 13(7), 18(a) and 18(c) of the AML Regulations read with SRO 55(I)/2020. The JIT shared a letter of findings with the Appellant on August 10, 2020.
3. In view of the aforesaid observations, the Respondent issued a show-cause notice dated February 16, 2021 (the “SCN”) to the Appellant. The Appellant submitted a written reply dated March 10, 2021 to the SCN, wherein it was asserted that the deficiencies highlighted in the SCN had been rectified. Hearing in the matter was held on April 26, 2021. The Respondent concluded the proceedings and imposed a penalty of Rs. 500,000/- (Rupees Five Hundred Thousand only) on the Appellant under Section 40A of the SECP Act.
4. The Appellant has preferred the instant Appeal, *inter-alia*, on the grounds that the Impugned Order had been passed primarily on the basis of the JIT’s findings while the



Securities and Exchange Commission of Pakistan

Appellant's submissions were not properly appreciated. It was contended that the Respondent had misconstrued the revision in risk categorization of certain accounts as an admission of non-compliance, whereas the accounts had initially been categorized as low-risk owing to negligible trading activity and small investment size the same were subsequently marked high-risk pursuant to the findings of the JIT. The Appellant further contended that the Respondent itself had accepted the Appellant's explanation regarding maintenance of database of beneficial owners and screening mechanism, therefore, no adverse finding could legally be sustained in that regard.

5. The Appellant further submitted that the findings relating to deficiencies in AML/CFT Policy and compliance framework were contrary to the material available on record, as the AML/CFT Policy already contained provisions relating to beneficial ownership, TFS and other regulatory requirements, which had duly been shared with the JIT prior to the issuance of the SCN. It was further contended the conclusion drawn in the Impugned Order regarding subsequent updation of the AML/CFT policy was factually incorrect and contrary to the written response furnished by the Appellant.
6. With regard to the observations relating to NADRA *Verisys*, the Appellant submitted that brokerage houses/TREC holders were, at the relevant time, unable to obtain access to the *Verisys* facility due to reasons beyond their control, which fact was acknowledged industry-wide and even taken up by the Commission and Pakistan Stock Brokers Association with NADRA. The Appellant contended that, in the circumstances, it had adopted alternate verification measures, including verification through original CNICs and attested identity documents, and therefore imposition of penalty on this account was unjustified.
7. The Appellant also challenged the findings relating to deficiencies in KYC/CDD and EDD documentation of individual and corporate clients by contending that the Respondent had failed to properly scrutinize the record and had incorrectly presumed that the relevant documents, including KYC forms, salary slips, source of income evidence, Form-A and Form-29, were obtained subsequent to the Inspection. The Appellant submitted that the said documents bore dates prior to the inspection period and had already been obtained and maintained in the ordinary course of business. On the basis of the aforesaid submissions,



Securities and Exchange Commission of Pakistan

the Appellant assailed the legality and validity of the Impugned Order and sought setting aside of the penalty imposed thereunder.

8. The Respondent rebutted the arguments of the Appellants on the following grounds, *inter-alia*, that the Appellant, being a TREC holder of PSX and a licensed securities broker, was duly bound to comply with the AML Regulations in letter and spirit. The Respondent further submitted that the findings recorded in paras 7(i) to 7(vi) of the Impugned Order conclusively established multiple contraventions of the AML Regulations committed by the Appellant during the inspection period. It was contended that the AML/CFT regime could not be termed as a newly introduced regulatory framework, as the AML Regulations had been promulgated in June 2018 and the relevant guidelines had also been issued in September 2018, well before the inspection period spanning from April 2020 to June 2020. The Respondent submitted that the awareness sessions and trainings conducted by the Commission were merely facilitative in nature and did not dilute the mandatory obligation of compliance imposed upon regulated persons.
9. The Respondent further submitted that the Impugned Order had been passed after due consideration of the facts, record and submissions of the Appellant, and that certain explanations furnished by the Appellant had, in fact, been accepted and condoned in the Impugned Order wherever found tenable. With regard to risk categorization, the Respondent contended that the Appellant had admittedly marked clients, authorized persons and directors belonging to high-risk jurisdictions as “nil risk” and had subsequently revised their categorization to “high-risk” after the inspection, which itself established the non-compliance at the relevant time. The Respondent also submitted that the Appellant had updated its AML/CFT Policy and formalized the reporting line of the Compliance Officer subsequent to the Inspection, thereby establishing contravention of the applicable AML Regulations at the material time.
10. With respect to NADRA *Verisys*, the Respondent submitted that the Impugned Order had fairly dealt with the matter by accepting the Appellant’s explanation regarding regulation 6(3)(a) of the AML Regulations in respect of CNIC copy of one of the nominees of a client, while maintaining the finding of contravention under Regulation 6(4). The Respondent



Securities and Exchange Commission of Pakistan

further submitted that the deficiencies relating to KYC/CDD and EDD measures stood established from the record, as the Appellant had failed to provide requisite documentary evidence regarding source of income/funds and supporting KYC documentation at the time of inspection. According to the Respondent, the subsequent production or rectification of documents after the inspection did not absolve the Appellant of liability for the defaults existing during the inspection period. It was also contended that the mere fact that certain documents bore dates prior to the Inspection did not by itself establish that the same had been timely obtained, maintained and made available during the Inspection, particularly in respect of high-risk corporate clients. Lastly, the Respondent prayed that the appeal be dismissed and the Impugned Order be upheld.

11. 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 that compliance with such obligations is fundamental to the integrity, transparency, and stability of the capital market. The Bench further notes that remedial or rectification measures taken subsequent to the identification of deficiencies, though indicative of an improved compliance culture, do not retrospectively extinguish contraventions that stood established at the relevant time.

12. The record reflects that the Inspection had identified various deficiencies in the Appellant’s AML/CFT framework relating to risk categorization, AML/CFT policy framework, KYC/CDD and EDD documentation, maintenance of beneficial ownership records, and validation of identity documents through NADRA *Verisys*. It is evident from the record that subsequent to the Inspection, the Appellant furnished explanations, supporting documents and evidence claiming rectification of a substantial number of the deficiencies, and the Impugned Order itself acknowledged that certain explanations furnished by the Appellant were found tenable. In particular, the Respondent accepted the Appellant’s explanation regarding maintenance of database of beneficial owners. With regard to NADRA *Verisys*, the Bench notes that the non-availability of the facility to brokerage houses/TREC holders during the relevant period was an industry-wide issue. In these circumstances, the Bench is of the considered view that penal consequences ought not to have been imposed upon the Appellant for non-availability of a facility beyond its control,



Securities and Exchange Commission of Pakistan

therefore, the finding of contravention under Regulation 6(4) read with Annexure-I of the AML Regulations relating to NADRA *Verisys* is liable to be condoned.

13. However, insofar as the remaining deficiencies relating to risk categorization, AML/CFT policy framework, KYC/CDD and EDD measures are concerned, the Bench observes that the record sufficiently establishes that the Appellant had failed to maintain complete and readily available documentation and compliance mechanisms during the Inspection period. Although the Appellant has argued that the relevant documents had already been obtained prior to the Inspection, the material on record indicates that the same were either not properly maintained, not adequately reflected in the compliance framework, or were not made available to the Inspection Team at the relevant time. The Bench is of the view that regulated persons operating in the financial sector are under a continuing obligation to maintain robust AML/CFT controls and ensure that all requisite documentation and compliance measures remain complete, updated and readily demonstrable at all times. Mere subsequent production of documents or rectification of deficiencies does not entirely negate the fact that shortcomings existed during the period under inspection.
14. The Bench is also mindful of the fact that enforcement under the AML/CFT regulatory framework must remain proportionate, risk-sensitive, and structured in a manner that promotes durable and meaningful compliance. Sound principles of financial regulation recognize that, while deterrence is an essential component of enforcement, due regard must also be given to the size, operational complexity, and risk profile of the regulated entity, together with its conduct after deficiencies have been identified. In the present case, the record indicates that the Appellant is a comparatively small brokerage house with modest operations. It further appears that, after the Inspection, the Appellant undertook corrective measures in line with the AML Regulations. Although such subsequent measures do not condone prior defaults, they are indicative of responsiveness to regulatory concerns and willingness to improve internal governance systems.
15. The Bench further observes that a sound regulatory framework seeks not only to enforce compliance but also to provide a conducive and facilitative environment in which stakeholders can conduct business in an orderly and compliant manner. This approach is consistent with internationally accepted principles of proportionality, fairness, and



Securities and Exchange Commission of Pakistan

regulatory effectiveness, whereby sanctions are tailored to the gravity of violations, the risk posed to the financial system, and the overall conduct of the regulated entity. In circumstances where no aggravating factors, such as deliberate concealment, repeated defiance, or evidence of misuse of the financial system, are present on record, a measure of regulatory leniency, coupled with continued supervisory oversight, is considered appropriate.

16. In view of the foregoing, the Impugned Order is modified to the extent that the penalty is reduced to Rs. 250,000/- (Rupees Two Hundred and Fifty Thousand only).
17. The Appeal stands disposed of in the above terms with no orders as to costs.
18. Any person or party aggrieved by this Order may, within thirty (30) days from the date hereof, file a Review under section 32B(2), or within sixty (60) days prefer an Appeal under section 34, of the Securities and Exchange Commission of Pakistan Act, 1997 before the competent forum, in accordance with law.

(Zeeshan Rehman Khattak)
Commissioner

(Imtiaz Haider)
Commissioner

Announced on: **04 JUN 2023**