



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Division  
Adjudication Department-II

*Before*

**Hammad Javed, Additional Director/ Head of Wing  
(Licensed Entities-Adjudication Department-I)**

*In the matter of*

**Finja Lending Services Limited**

Show Cause Notice No. & Issue Date:	No. SECP/SCD/Adj-1/31/2021- 3415 August 3, 2023
Date of Hearing:	September 4, 2023
Present at the Hearing Representing the Respondent	1. Mr. Kamran Aslam Zuberi, Chief Executive Officer; 2. Mr. Shakeel-ur-Rehman, Head of Risk and Compliance (Authorized Representatives)

## ORDER

**UNDER REGULATION 31 OF THE SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (ANTI MONEY LAUNDERING AND COUNTERING FINANCING OF TERRORISM) REGULATIONS, 2020; READ WITH SECTION 6A(2)(H) OF THE ANTI MONEY LAUNDERING ACT, 2010 AND RULES 4(1)(A) AND 6(1) OF THE AML/ CFT SANCTIONS RULES, 2020.**

This Order shall dispose of the proceedings initiated through the Show Cause Notice dated August 3, 2023, (the SCN) by the Securities and Exchange Commission of Pakistan (the Commission) against Finja Lending Services Services Limited (the Company and/or Respondent) under regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (the AML Regulations) read with Section 6A(2)(h) of the Anti-Money Laundering Act, 2010 (the AML Act); and rules 4(1)(A) and 6(1) of the AML/ CFT Sanctions Rules, 2020 (the AML Rules) for contraventions of regulations 8(3), and 27(1)(c) & (d) of the AML Regulations.

2. The Company was incorporated on October 29, 2019, as a public unlisted company under the Companies Act, 2017 (the Act) and licensed by the Commission on February 7, 2020, to undertake Investment Finance business as an NBFC under the Non-Banking Finance Companies (Establishment and Regulations) Rules, 2003 (the NBFC Rules) and Non-Banking Finance Companies and Notified Entities Regulations, 2008 (the NBFC Regulations).

3. The inspection of the Company was ordered under Section 282 I of the Companies Ordinance, 1984 (the Ordinance) and Section 6A(2)(f) of the AML Act vide inspection order bearing number OD(NBFCs)/SD/FINJA/2023/140 dated February 01, 2023. The scope of the inspection included a review of compliance with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 (the AML Regulations), and relevant regulatory framework. The review period of the said inspection was from January 1, 2022, to January 31, 2023. The findings/observations of the inspection team were shared through a Letter of Findings dated May 30, 2023 (LOF) with the management of the Company and comments received from the management vide letter dated June 15, 2023, were made part of the Inspection Report dated June 26, 2023 (the Inspection Report).

4. The Company, *prima facie*, was found non-compliant with the AML Regulations as indicated in the inspection report. The observations are:



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- i) Regulation 27(1)(d) of the AML Regulations requires a regulated person to have an independent audit function to test its compliance system and mechanism.

In this regard, it has been observed that the Internal Audit function was non-existent in the Company, and on inquiring the same, it was informed to the inspection team that the Internal Audit function was established in January 2023; after more than three years since the inception of the Company and coincidentally just before the initiation of the inspection. It is pertinent to mention that the Company constituted its Audit Committee, on December 24, 2022, with inordinate delay. The Company provided a copy of the draft "Internal Audit Charter" and informed that Audit Plan is under draft with a tentative date of commencement of the Internal Audit function by the second quarter of the current year. Thus, the Company has been *prima facie* in contravention of regulation 27 (1) (d) of AML Regulations.

- ii) Regulation 8(3) of the AML Regulations requires a regulated person to categorize each customer's risk depending upon the outcome of the customer due diligence (CDD) process.

A review of the customer's details obtained from the Company, it was noted that the Management of the Company had not categorized each customer risk depending upon the outcome of the CDD process. In the absence of appropriate internal risk management systems, policies, procedures, and controls to determine the risk categorization of the customers, the Company did not have appropriate basis available to properly conduct Enhance Due Diligence (EDD). Thus, the Company has *prima facie* violated regulation 8 (3) of AML Regulations. Some observed instances are as mentioned below:

Account No/CNIC	No/Reg.	AML-CFT Categorization
98000002605		No Risk Categorization
98000003540		No Risk Categorization
98000003297		No Risk Categorization
98000002549		No Risk Categorization
1730152750649		No Risk Categorization
3520115534551		No Risk Categorization
923094200693		No Risk Categorization
923469027147		No Risk Categorization
923112079318		No Risk Categorization
923013547929		No Risk Categorization

- iii) Regulation 27(1)(c) of the AML Regulations requires a regulated person to implement the policies procedures and controls for ongoing employees training program.

During the inspection, it has been observed that the Company did not conduct any Training and Development program for the employees, especially related to those overseeing compliance of Anti Money Laundering and Countering Financing of Terrorism (AML-CFT). In this regard, the Company informed that two AML-CFT sessions were attended by

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the Management on December 31, 2021, and July 14, 2021, conducted by the Commission. However, these two sessions, back in 2021, do not suffice the requirement of an ongoing employee training program related to AML-CFT. Thus, the company is *prima facie* non-compliant with the requirement of regulation 27 (1) (c) of AML Regulations.

5. The aforesaid shortcomings, lapses, and contraventions indicated that the Company, *prima facie*, failed to comply with the requirements of regulations 8(3), and 27(1)(c) & (d) of the AML Regulations which attracts applicability of regulation 31 of the AML Regulations read with Section 6A(2)(h) of the AML Act, Rules 4(1)(a) and 6(1) of the AML Rules. The said provisions of the law are reproduced as under:

**Regulation 8(3) of the AML Regulations: -**

*“Customer Due Diligence – .....*

*(3) The regulated person shall categorize each customer’s risk depending upon the outcome of the CDD process.”*

**Regulation 27(1)(c)&(d) of the AML Regulations:-**

*“Compliance Program – (1) In order to implement compliance programs as set out in 7G of the AML Act, the regulated person shall implement the following internal policies, procedures and controls: .....*

*(c) an ongoing employees training program;*

*(d) an independent audit function to test the system....”*

**Regulations 31 of the AML Regulations:**

*“(1) Any contravention of these regulations shall be cognizable by the Commission in accordance with section 6A of the AML Act and liable to sanction provided in the AML/CFT Sanctions Rules, 2020 and imposed by the Commission according to Clause (h) of Sub-section (2) of Section 6A of AML Act.”*

**Rules 4(1)(a) of the AML Rules:**

*“(1) On any contravention as set out in rule 3(2), any or all of the following sanctions may be imposed by the concerned AML/CFT Regulatory Authority, namely: -*

*(a) Impose a monetary penalty in accordance with these Rules;”*

**Rules 6(1) of the AML Rules:**

*“(1) The AML/CFT Regulatory Authority shall apply monetary penalties up to Rs. 100 Million per violation, in accordance with the risk-based penalty scale of the respective AML/CFT Regulatory Authority.”*

**Section 6A(2)(h) of the AML Act:**

*“(h) impose sanctions, including monetary and administrative penalties to the extent and in the manners as may be prescribed, upon their respective reporting entity, including its directors and senior management and officers, who violates any requirement in section 7(1), 7(3) to 7(6) and 7A to 7H and any rules or regulations made thereunder or those who fail to comply with the TFS regulations. Any person aggrieved by the imposition of sanctions under this clause may prefer an appeal in such manner and within such period to such authority as may be prescribed;”*



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6. Keeping in view the aforesaid contraventions, the SCN was issued to the Respondent, calling upon it to show cause in writing as to why the penalty as provided under regulation 31 of AML Regulations read with Section 6A(2)(h) of the AML Act and rules 4(1)(a) and 6(1) of AML Rules, may not be imposed on it for the aforementioned contraventions of the law.

7. In response to the SCN, the Respondent through a letter dated August 16, 2023, submitted on merits as under:

"....."

I. **Non-Existence of Independent Internal Audit Function- AML Regulation 27(1)(d).**

*We would like to inform the Commission that the Internal Audit Function, along with its corresponding Audit Committee, has been established. We acknowledge a certain delay in this regard and are committed to ensuring rigorous adherence to compliance measures in subsequent instances. This encompasses the forthcoming reconfiguration of the internal audit function in alignment with regulatory mandates under the oversight of an independent director. The completion of this reconstitution is anticipated by mid-September 2023.*

II. **Customer Risk Categorization & Customer Due Diligence — AML Regulation 8(3).**

*We greatly value your observation regarding the customer risk categorization and the incorporation of enhanced due diligence protocols within our onboarding procedures. We aim to provide a comprehensive response to address your concerns:*

*We wish to emphasize that our lending products are meticulously designed with a closed-loop and productivity-centric approach. In essence, we do not disburse cash; rather, we facilitate the procurement of stock or inventory tailored to the specific needs of the respective businesses and borrowers. Repayment transpires upon the sale of the provided stock. It is worth highlighting that a significant proportion of our borrowers are situated within a consistent sociodemographic segment, predominantly comprising small-scale retail proprietors and operators. Given the average ticket size of 28,496/-, the inherent low-risk nature of these borrowers becomes apparent due to the structured closed-loop product framework and the modest average ticket size.*

*Furthermore, it should be underscored that Finja Lending Services Limited abstains from disbursing credit in cash form, opting instead for inventory-based disbursements with smaller ticket sizes. These attributes collectively contribute to the classification of borrowers within the low-risk category for the purposes of Anti-Money Laundering and Countering the Financing of Terrorism (AML-CFT) considerations.*

*Additionally, we acknowledge that although the risk categorization procedure is conducted during the onboarding process, its visibility within our system is currently pending. We wish to assure you of our unwavering commitment to enhance our system's capabilities to render risk categorization visible, serving both regulatory compliance and internal management objectives. The implementation of these enhancements is already in progress and is anticipated to conclude by the culmination of the third quarter of 2023.*

III. **Compliance Program/Employee Training — AML Regulation 27 (1)(c).**

*A limited group of employees underwent Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) training programs in the year 2021, meticulously chosen to participate. Unfortunately, due to unforeseen circumstances, including the departure of*

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*relevant personnel, the scheduled refresher training for the year 2022 could not be carried out. Finja Lending Services Limited is unwavering in its dedication to conduct the requisite refresher AML/CFT training for pertinent employees in the course of 2023, and we commit to providing documentation as evidence to the Regulator upon the training's successful completion.*

*We are resolute in our commitment to adhere to the established timelines for addressing the gaps and observations highlighted in the Show Cause Notice concerning AML regulations. We earnestly beseech your esteemed office to kindly consider our case with a compassionate perspective.....”*

8. In order to provide the Respondent an opportunity for personal representation, a hearing in the matter was fixed for September 4, 2023, before the undersigned, wherein Mr. Kamran Afzal Zuberi, Chief Executive Officer; and Mr. Shakeel-ur-Rehman, Head of Risk and Compliance; appeared as Authorized Representatives of the Respondent (**Representatives**). The Representatives while reiterating the contents of the reply of the SCN inter alia further submitted that:

- (i) At the time of inspection Internal Audit Function existed but the Charter was not approved, now the Charter for internal audit has been approved. The Internal Audit personnel were directly reporting to the Board of Directors (**the Board**) of the Respondent. They will provide further assertions regarding Internal Audit, including a copy of the Board resolution for approving the Charter of the Audit;
- (ii) The Respondent was doing/carrying out the customer categorization but the same was not reflected in their system; and
- (iii) Admitted that no employee training was conducted since December 2021.

9. Subsequent to the hearing, the Respondent vide letter dated September 5, 2023, re-submitted an earlier reply with certain additions regarding internal audit function and Board approval of Audit Charter, as under:

“.....”

**I. Non-Existence of Independent Internal Audit Function-AML Regulation 27(1)(d).**

*We are in concurrence that an Audit Committee has been established, with Mr. Imran Ashraf Usmani serving as the Chairman, Mr. Usmani holds the position of an independent director at FLSL. Furthermore, our chief Financial Officer, Mr. Muhammad Ali Farooqui, will also be the member of this Committee. The Committee is scheduled to convene on quarterly basis, and comprehensive minutes of these meetings will be diligently documented. Moving forward, we are committed to ensuring independent reporting from the internal audit department. Attached herewith are pour Audit Charter and Audit plan for your review along with its Board approval.....”*

As per the Board resolution attached along with the Respondent afore said response, the Audit Charter and Audit plan of the Respondent was approved by its Board in its meeting held on March 1, 2023.

10. I have examined the facts of the case in light of the applicable provisions of the law and have given due consideration to the written as well as verbal submissions and arguments of the Respondent and its Representatives. I am of the considered view that:

**i. Non-Existence of Independent Internal Audit Function (regulation 27(1)(d) of the AML Regulations):-**

Regarding the non-existence of an independent internal audit function, the Respondent in its written response admitted the delay in the constitution of audit committee. The Representative during the



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hearing asserted that an internal audit function existed but the charter was not approved by the Board and the audit committee was not constituted. Now the Board, in its meeting held on March 1, 2023, approved the charter for the internal audit and audit plan. Further, they also confirmed the constitution of the Audit Committee and assured to have independent reporting from internal audits in the future.

Given the above, it has been noted that the charter for internal audit and audit plan was approved after the issuance of inspection order dated February 01, 2023 thus it is evident that the Respondent failed to establish its internal audit function until March 01, 2023 since promulgation of AML Regulation on September 28, 2020. Moreover, it is emphasized that subsequent compliance with the regulatory requirement does not absolve the Respondent from the violations observed during the review period. Thus, contravention of regulation 27(1)(d) of the AML Regulations stands established.

**ii. Risk Categorization of the Customers (regulation 8(3) of the AML Regulations):-**

With regard to assigning Risk Categorization of the Customers as an outcome of the CDD process, the Respondent and its Representatives admitted this lapse. They submitted that although the risk categorization procedure is conducted during the onboarding process, however, its visibility within their system is currently pending. They further asserted that now they are committed to updating/enhancing their system and processes to assign risk categorization to their clients.

In the absence of appropriate internal risk management systems, policies, procedures, and controls to determine the risk categorization of the customers, the Respondent did not have an appropriate basis available to properly conduct CDD and EDD. It has been observed that the Respondent's failure to comply with the stated requirements of AML Regulations, during the review period of the inspection, is an admitted fact and no evidence of subsequent compliance has also been furnished by the Respondent in this connection. Thus, contravention of regulation 8(3) of the AML Regulations has been established.

**iii. Training program for Employees (regulation 27(1)(c) of the AML Regulations):-**

Regarding training programs for employees, the Respondent in a written response to the SCN asserted that a limited group of employees underwent Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) training programs in the year 2021, meticulously chosen to participate. Unfortunately, due to unforeseen circumstances, including the departure of relevant personnel, the scheduled refresher training for the year 2022 could not be carried out.

In this regard, it may be noted that the regulation 27(1)(c) requires the Respondent to conduct the employee training program on ongoing basis whereas the Respondent in its written response to the SCN and its Representatives during the hearing admitted that the Respondent has not conducted employee training programme since December 2021. Thus, the non-compliance with the requirement of regulation 27(1)(c) has been established.

11. In view of the foregoing facts of the case, it is abundantly clear that contraventions of Regulations 8(3), and 27(1) (c) & (d) of the AML Regulations have been established, which attract imposition of penalty under Regulation 31 of the AML Regulations read with Section 6A(2)(h) of the AML Act, and Rule 4(1)(a) & 6(1) of the AML Rules. Hence, I, in exercise of the powers conferred upon me, hereby, impose a penalty of **Rs. 800,000/- (Pak Rupees; Eight Hundred Thousand Only)**



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on the Respondent on account of the aforesaid conceded and established contraventions of the aforesaid provisions of AML/CFT.

12. The Company is hereby directed to deposit the aforementioned fine in the designated Bank Account maintained in the name of the Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited within thirty (30) days of the date of this Order and furnish receipted voucher evidencing payment of the same.

13. The Respondent is advised to ensure its meticulous compliance with all applicable Laws, Rules, Regulations and Directions etc. notified/issued from time to time relating to anti-money laundering and countering financing of terrorism in true letter and spirit, at all times.

14. This Order is issued without prejudice to any other action that the Commission may initiate against the Company and/or its CEO in accordance with the law on matters subsequently investigated or otherwise brought to the knowledge of the Commission.

(Hammad Javed)

Additional Director / Head of Wing  
Licensed Entities - Adjudication Department-I

**Announced:**

January 11, 2024  
Islamabad.