



# SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

## Adjudication Department- I

### Adjudication Division

*Through Courier*

*Before*

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

*In the matter of*

**Seedcred Financial Services Limited**

Number and date of Show Cause Notice	SECP/SCD/Adj-I/Seedcred/67/2022-178 dated February 29, 2024
Date(s) of Hearing:	March 27, 2024 May 15, 2024
Present at the Hearing:	Mr. Areeb Ahmed Siddiqui, Company Secretary Mr. Hasan Mandviwalla (Authorized Representatives) Mr. Abrar Ameen, Director (assisting the Authorized Representative)

### ORDER

**Under Regulation 8(3), 9(b) read with Clause (o) of Note (i) to Annex-1 and Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti-Money Laundering & Countering Financing of Terrorism) Regulations, 2020 read with Rule 4(1)(a) and 6(1) of the AML/CFT Sanctions Rules, 2020 and Section 6A(2)(h) of the Anti-Money Laundering Act, 2010**

This Order shall dispose of the proceedings initiated against M/s Seedcred Financial Services (Private) Limited (the Respondent and/or the Company) through Show Cause Notice No. SECP/SCD/Adj-I/Seedcred/67/2022-178 dated February 29, 2024 (the SCN) issued under Regulation 8(3), 9(b) read with Clause (o) of Note (i) to Annex-1 and Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti-Money Laundering & Countering Financing of Terrorism) Regulations, 2020 (the AML Regulations) read with Rule 4(1)(a) and 6(1) of the AML/CFT Sanctions Rules, 2020 (the AML Rules) and Section 6A(2)(h) of the Anti-Money Laundering Act, 2010 (the AML Act).

2. The Company was incorporated on June 11, 2021 and is licensed to carry out its business as a Non-Banking Finance Company.

3. An enquiry of the Company and its business was conducted by the Securities and Exchange Commission of Pakistan (the "Commission") in terms of Section 282I of the erstwhile Companies Ordinance, 1984 (the "Ordinance") vide Enquiry Order dated August 16, 2023, in order to examine the Company's compliance status *inter alia* with the relevant requirements of the AML Regulations. The review period for the enquiry covered the date of license of the Company (i.e. July 16, 2021) till the period ending July 31, 2023 (the Review Period).

4. The aforesaid enquiry *prima facie* revealed the following non-compliances of the Company with the AML Regulations:



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- a. Regulation 8(3) of the AML Regulations requires the regulated persons (including NBFCs) to categorize each customer's risk depending upon the outcome of the Customer Due Diligence (CDD) process.

During the course of enquiry, the enquiry team requested the Company to provide KYC/CDD details in respect of the following five (05) clients vide an email dated December 26, 2023, response to which was furnished by the Company vide its email dated January 02, 2024:

Client ID	Amount (Rs.)	No of Transactions	Charges Paid (Rs.)
211107010008182459	2,788,982	99	649,738
220511010026581632	1,611,655	81	314,136
220114010017855997	1,317,276	44	348,927
220224010002341742	1,244,200	33	226,382
220127010013195082	1,075,914	32	383,784

Furthermore, the enquiry team identified the loans extended to two (02) more clients, and requested the Company vide email dated January 04, 2024 to provide the requisite KYC/CDD documentation, response to which was furnished by the Company vide its email dated January 12, 2024:

CNIC	Sum of Loan Extended (Rs.)	Number of loans	Charges paid (Rs.)
3660259224719	14,429,619	422	2,549,681
3110437014889	1,082,100	30	137,750

On perusal of the aforesaid responses received from the Company, the enquiry team noted that the abovementioned seven (07) clients have been assigned "low" risk ratings with justification for categorizing these clients as "low" risk since their names were not found in any proscribed persons or Politically Exposed Persons (PEP) list, and that the Company has obtained their respective tax returns as proof of their income. However, the enquiry team observed that no tax returns were reportedly provided by the Company; and instead, only respective tax payer status in respect of 02 (out of 07) clients was shared with the team. The enquiry team further observed that the respective income profiles (as shared in an extracted form by the Company) of these clients were quite low as compared to the quantum of loans they availed and repaid.

The above *prima facie* depicted that the Company failed to categorize the customers' risks based on an adequate CDD process, in violation of Regulation 8(3) of the AML Regulations.

- b. Regulation 9(b) read with Clause (o) to Note (i) to Annex-1 to the AML Regulations require the regulated person to obtain and evaluate sufficient appropriate documentary evidence to aptly determine the source of earnings/income of its customers. In respect of the identified customers as enumerated in para (a) above, it was noted during the course of enquiry that:





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- i. The Company vide its email dated December 19, 2023 informed the enquiry team that it has updated its mobile application on December 13, 2023 to facilitate "monthly income proof uploading". This transpired that the Company has only started to collect documentation regarding proof of source of income with effect from December 13, 2023.
- ii. Perusal of the KYC/CDD information shared by the Company in respect of the seven (07) clients, as summarized in para (a) above, *prima facie* revealed that the evidence of source of income for these clients was not available.
- iii. Subsequent to the information received from the Company on January 12, 2024, the enquiry team vide email dated January 17, 2024 specifically requested the Company to provide the documents which it has collected as the source and quantum of income as disclosed by the respective client.
- iv. The Company vide its email dated January 19, 2024 informed that it has provided all the documents which were collected at clients' onboarding time. However, the said documents *prima facie* did not include any evidence to ascertain or determine the source of income of these clients.

In view thereof, the Company allegedly failed to obtain sufficient appropriate information and/or documentation to identify the source of income of its customers, *prima facie* in violation of Regulation 9(b) read with Clause (o) to Note (i) of Annex-1 of the AML Regulations.

5. The aforesaid alleged violations attract applicability of regulation 31 of the AML Regulations read with rule 4(1)(a) and 6(1) of the AML Rules and section 6(A)(2)(h) of the AML Act. Accordingly, the SCN was served upon the Respondent. The Respondent submitted its written response to the SCN vide letter dated March 26, 2024, relevant extracts of which are reproduced below:

*"...We wish to acknowledge the importance of adhering to AML Regulations and we...fully recognize our obligations in this regard and continually seek to enhance our compliance measures. However, the conventional methods of income verification, reliant on physical proof, often fall short and are vulnerable to manipulation or forgery. In response to these challenges, we have developed a sophisticated risk management system that transcends traditional income verification methods. Our system utilizes advanced data analytics to assess users' repayment capabilities accurately. By analyzing various data points, including transaction history, repayment patterns and records from credit bureau etc., our system can provide a comprehensive evaluation of a user's financial position and repayment capacity.*

*Moreover, we understand the concerns surrounding discrepancies between customers' reported income and loan disbursements. Our credit assessment does not rely solely on the income amount provided but encompasses multiple factors. Following global financial standards, customers with exemplary repayment records earn higher credit limits.*



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*In conclusion, while we acknowledge the concerns raised by the SECP, we assert that our risk management practices align with industry best standards and regulatory mandates. We steadily uphold the highest standards of compliance and integrity across all facets of our operations...*

*In our email dated December 19, 2023, we explicitly outlined the updates in version 1.9.7, effective December 13, 2023, which included an adjustment to the "Monthly income proof uploading UI (User Interface) Adjustment". This adjustment aimed to streamline the interface for customers to upload income proof, rather than introducing a new function for income proof uploading.*

*The SECP's conclusion that we commenced collecting income proof only from December 13, 2023, is misconceived. We have consistently collected income proof from customers.*

*As mentioned above, we understand the challenges associated with collecting and verifying customers' income proof, and we have implemented strategies to address these challenges while still maintaining robust risk management practices. For customers who have not provided income proof, our approach is not one of blanket refusal to grant loans. Instead, we employ a strategy that takes into account various factors beyond just income verification. Our risk management system utilizes a holistic approach, considering factors such as credit history, transaction patterns and other relevant data points to evaluate customer's overall financial position and repayment capability. By leveraging the data, our system can make informed decisions that balance risk and opportunity effectively.*

*It's important to note that our decision not to entirely rely on income proof does not mean a lax approach to risk management and AML compliance. On the contrary, it reflects our recognition of the limitations of traditional income verification methods and our commitment to leveraging technology and data analytics to enhance our risk assessment capabilities. Ultimately, our goal is to make responsible lending decisions that serve the best interests of both the company and our customers. We remain vigilant in our efforts to combat financial crime..."*

6. In order to accord an opportunity of personal representation to the Respondent, a hearing in the matter was fixed for March 27, 2024, which was attended by Mr. Areeb Ahmed Siddiqui, Company Secretary as Authorized Representative of the Respondent, and Mr. Abrar Ameen, Director (assisting the Authorized Representative). During the course of hearing, the Representative was inquired regarding the contraventions of AML Regulations as alleged in the SCN. The Representative reiterated their afore-said written submissions made in response to the SCN. Further, the Representative referred to the similar adjudicatory proceedings earlier concluded by the Commission against the Respondent in November 2023, contending that such proceedings also related to the violations akin to the instant proceedings and on conclusion thereof, the Respondent believed that the matter stood resolved and the instant proceedings were thus not warranted. The Respondent was informed that the earlier proceedings were for different period further, the instant proceedings relate to 07 clients categorized as low-risk by the Respondent wherein the Respondent failed to collect proof of income/documentations from its clients.





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7. The following hearing opportunities were also accorded to the Respondent subsequently, which however were adjourned repetitively on the request of the Respondent:

Date of Scheduled Hearing	Status
April 26, 2024	Adjourned
May 10, 2024	Adjourned
May 13, 2024	Adjourned

8. Accordingly, as per the request of the Respondent through its Authorized Representative (namely M/s Mandviwalla & Zafar), the hearing was again re-fixed for May 15, 2024, which was attended by Mr. Hasan Mandviwalla on behalf of the Respondent. During the course of hearing, the Representative reiterated the earlier written submissions while the Representative was advised to submit the details of corrective measures undertaken by the Respondent and/or a compliance report with regards to the alleged contraventions of law as entailed under the SCN. Thereafter, the Respondent vide letter dated May 27, 2024 *inter alia* submitted para wise comments on SCN that:

*"... the contents of paragraph 3 a. with regard to (i) classification of customers as low risk and (ii) non-provision of tax status of customers; and (iii) income profiles in relation to loan disbursements are all because a significant portion of the Company's customer base consists of individuals from low to medium income classes, with a notable majority being unbanked. This demographic is a key segment in the Company's business model, particularly in the context of nano-lending services. While the associated risk factors are inherently low and there are small loan amounts typically involved in nano-lending, we are still respectfully regretful in case there are any deficiencies in our customer due diligence.*

*With regard to the contents of paragraph 3 b. it is respectfully submitted that the documents submitted were all that were available with the Company on record however the Company is willing to cooperate in case of any deficiency. Many developing economies such as Indonesia, Mexico, India, Egypt, etc. have evolved in their digital lending journey, and digital lending has become an established part of their economies. The sector is in the infancy stage in Pakistan where a tenure of a nano-loan is limited with an interest rate cap, hence catering to a materially distinct customer risk profile especially since the loan is free of any security.*

*Despite the challenges presented by our customer demographic, we attempt to maintain rigorous standards for verifying income and the source of funds. We require every client to provide proof of income or alternatively documents of equivalent nature albeit a common feature for customers in our target segment to struggle with providing basic documentation.*

*It has been utmost priority for the Company being a nano-lending institution to ensure compliance with the regulations set forth by the Securities and Exchange Commission of Pakistan. In response to the abovementioned show cause notice, we are undertaking significant amendments to our business functioning and processes to ensure full compliance with the*



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*regulations. These changes will be implemented in a more measurable way once the Company has resumed onboarding of customers and disbursements of loans. These improvements are integral to our regulatory compliance and the responsible management of our business operations...*

*...The Company is respectfully regretful and has no intention of contravening the provisions mentioned in the show cause notice and that as soon the Company is in a position to resume its services a compliance report will be filed demonstrating measurable progress keeping in view the regulations and the purported allegations contained in the show cause notice..."*

9. I have gone through the facts of the case and considered the written and verbal submissions of the Respondent and evidence available on record, in light of the aforesaid legal provisions and observed that:

**a. Regulation 8(3) of the AML Regulations:**

The Respondent was required in terms of Regulation 8(3) of the AML Regulations to categorize each customer's risk depending upon the outcome of the KYC/CDD process. With respect to the seven (07) clients categorized as low risk by the Respondent, the Respondent maintained during the enquiry that the justification for such categorization was the mere availability of tax returns of these clients as proof of their income and no match of their names in the proscribed persons or PEP list. Contrary to this submission, the Respondent during the course of instant proceedings contended to develop a "sophisticated risk management system that transcends traditional income verification methods reliant on physical proof". No evidence, however, has been provided by the Respondent to demonstrate the functioning of such a risk management system to ascertain the risk categorization of any of the identified customers in the instant proceedings. It is pertinent to mention here that even the submissions made by the Respondent during the course of enquiry were unfounded, since no tax returns were reportedly provided by the Respondent; and instead, only respective tax payer status in respect of 02 (out of 07) clients was shared with the enquiry team.

Further, it has been observed that the respective income profiles (as shared in an extracted form by the Respondent) of these clients were quite low as compared to the quantum of loans they availed. The Respondent has argued during the instant proceedings that its credit assessment does not solely rely on the income amount provided but "encompasses multiple factors e.g. customers with exemplary repayment records earn higher credit limits". In this respect, the following has been specifically noted:

- (i) For the Client having CNIC No. 3660259224719 to whom an aggregate of Rs.14,429,619 of loan was granted by the Respondent, the Respondent expressly informed that no match was found for this client in PEP or sanctions list and proof of his income (tax return) was obtained. However, the KYC/CDD documents for this client as provided by the Respondent to the enquiry team included (i) FBR Active Taxpayer Status report, instead of a filed income tax return, (and the report was itself





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generated on January 05, 2024 i.e. subsequent to the date when the observation was communicated to the Respondent by the enquiry team on January 04, 2024), (ii) an excel sheet showing "no match found" under sanction and PEP scan, (iii) CNIC of the client, and (iv) an extract showing Rs.55,000 as monthly income of this client.

- (ii) In respect of Client having CNIC No. 311437014889, to whom Rs.1,082,100 of loan was granted by the Respondent, the Respondent informed that no match was found for this client in PEP or sanctions list and his tax return as proof of income was obtained. However, the KYC/CDD documents for this client as provided by the Respondent to the enquiry team included (i) FBR Active Taxpayer Status report, instead of a filed income tax return, (and the report was itself generated on January 05, 2024 i.e. subsequent to the date when the observation was communicated to the Respondent by the enquiry team on January 04, 2024), (ii) an excel sheet showing "no match found" under sanction and PEP scan, (iii) CNIC of the client, and (iv) an extract showing Rs.55,000 monthly income of this client.
- (iii) In respect of Client having ID No. 211107010008182459 to whom an aggregate of Rs.2,788,982 of loan was extended by the Respondent, the KYC/CDD documents as provided by the Respondent to the enquiry team only included CNIC of this client and an extract showing 'student' as the category and Rs.10,000 as his monthly income.
- (iv) With regards to Client having ID No. 220511010026581632 to whom loan amounting to Rs.1,611,655 was extended by the Respondent, the KYC/CDD documents as provided by the Respondent to the enquiry team only included CNIC of this client and an extract showing Rs.55,000 as his monthly income.
- (v) In respect of Client having ID No. 220114010017855997 to whom loan amounting to Rs.1,317,276 was extended by the Respondent, the KYC/CDD documents as provided by the Respondent to the enquiry team only included CNIC of this client and an extract showing Rs.50,000 as his monthly income.
- (vi) In respect of Client having ID No. 220224010002341742 to whom loan amounting to Rs.1,244,200 was extended by the Respondent, the KYC/CDD documents as provided by the Respondent to the enquiry team included FBR Active Taxpayer Status report, instead of a filed income tax return, (and the report was itself generated on December 28, 2023 i.e. subsequent to the date when the observation was communicated to the Respondent by the enquiry team on December 26, 2023), CNIC of this client and an extract showing Rs.55,000 as his monthly income.
- (vii) With regards to Client having ID No. 220127010013195082 to whom loan amounting to Rs.1,075,914 was extended by the Respondent, the KYC/CDD documents as provided by the Respondent to the enquiry team only included CNIC of this client and an extract showing Rs.50,000 as his monthly income.



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It is eminent to mention here that no documentary evidence to depict as to whether the Respondent considered any other factors including repayment record of the identified clients, as contended by the Respondent itself, has ever been produced by the Respondent. It is thus clearly evident that the Respondent failed to categorize the customers' risks based on an adequate CDD process. Hence, contravention of Regulation 8(3) is established.

**b. Regulation 9(b) read with Clause (o) to Note (i) to Annex-1 to the AML Regulations:**

With regards to the allegation that the Respondent only started to collect documentation regarding source of income of its clients with effect from December 13, 2023, the Respondent has argued that instead of introducing an altogether new function, an update in version 1.9.7 was introduced including an adjustment to the "Monthly income proof uploading UI (User Interface) Adjustment", which aimed to streamline the interface for customers to upload income proof. The Respondent has maintained that it has consistently collected income proof from its customers. If the said argument of the Respondent were to hold true, the KYC/CDD documentation (as provided to the enquiry team) of the customers identified in the instant show cause proceedings would have included requisite evidence for proof of their respective income. However, no such evidence has been found therein.

The Respondent has further contented that for customers who have not provided income proof, its approach is not to render blanket refusal to grant loans. However, this contention is *ab initio* without merit, since Regulation 9(b) read with Clause (o) to Note (i) to Annex-1 to the AML Regulations clearly required the Respondent to obtain and evaluate documentary evidence to identify and verify the source of earnings/income of its customers, which it however has failed to do so. Hence, contravention of Regulation 9(b) read with Clause (o) to Note (i) to Annex-1 is established.

10. In view of the above-stated facts & circumstances, the evident admission (made vide letter dated May 27, 2024) and the established default of the Respondent in complying with the requirements of Regulation 8(3) and 9(b) read with Clause (o) of Note (i) to Annex-1 of the AML Regulations, I, in exercise of the powers conferred upon me under Section 6A(2)(h) of the AML Act and Rule 4(1)(a) and 6(1) of the AML Rules, hereby impose a **penalty of Rs.140,000/- (Rupees One Hundred and Forty Thousand only) on the Respondent**. The Respondent is directed to deposit the aforesaid penalty 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 a period of thirty (30) days from the date of this Order, and furnish receipted voucher issued in the name of the Commission for information and record.

11. The Respondent is also advised to ensure meticulous compliance with all applicable laws including the AML Regulations & the Act in true letter and spirit in the future.





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

(Mahboob Ahmad)

Additional Director/Head of Wing  
(Adjudication Department-I)

**Announced:**

June 28, 2024

Islamabad