



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

| Order | |
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| Name of Company: | Hamza Farhad Securities (Private) Limited |
| Show Cause Notice No. & Issue Date: | No. 2(296)SMD/Adj/2021-80 dated September 18, 2024 |
| Date(s) of Hearings: | December 12, 2024 |
| Present at the Hearing: | Mr. Khalid Butt (CEO) Mr. Farhad Butt (Compliance Officer) (Authorized Representatives) |
| Provisions of law involved: | Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 read with Section 6(A)(2)(h) of The Anti-Money Laundering Act, 2010 and Rule 4(1)(a) and 6(1) of the AML/CFT Rules, 2020 |
| Date of Order: | March 24, 2025 |

This Order shall dispose of the proceedings initiated through the Show Cause Notice No. 2(296)SMD/Adj/2021-80 dated September 18, 2024 (**the "SCN"**) by the Securities and Exchange Commission of Pakistan (**the Commission**) against Hamza Farhad Securities (Private) Limited (**the "Company"**) on account of alleged contravention of Regulation 31 of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 (**the "AML/CFT/CPF Regulations"**) read with Section 6(A)(2)(h) of the Anti-Money Laundering Act, 2010 (**the "AML Act"**) and Rule 4(1)(A) and 6(1) of the AML/CFT Sanction Rules, 2020 (**the "AML/CFT Rules"**).

2. The Company is a Trading Rights Entitlement Certificate (**TREC**) holder of Pakistan Stock Exchange Limited (**the "PSX"**) and is a regulated person as per Clause (r) of regulation 3(1) of the Regulations.

3. The brief facts of the case are that an inspection of the Company was carried out by the Joint Inspection Team (**JIT**), comprising officials from PSX, CDC and NCCPL, for the period November 01, 2022 to October 31, 2023 (**the "Inspection Period"**), to ascertain the compliance status with the AML/CFT/CPF Regulations. The inspection report dated May 10, 2024 (**the "Inspection Report"**) reveals that the Company was, *prima facie*, found non-compliant with the provisions of Regulation 23(2) of AML/CFT/CPF Regulations in the following manner:

- i. *The Company failed to justify in writing the low-risk classification of nine (9) clients; in contravention to Regulation 23(2) of AML/CFT/CPF Regulations.*

4. The aforementioned non-compliances attract the applicability of Regulation 31 of the AML/CFT/CPF Regulations read with Section 6(A)(2)(h) of the AML Act and Rule 4(1)(a) and 6(1) of the AML/CFT Rules.

5. While taking cognizance of the matter, a SCN dated September 18, 2024 was served upon the Company, calling it to explain in writing, within 14 days of the date of the SCN, as to why penal action may not be undertaken for the aforesaid alleged violation of the Regulations.

6. The Company vide letter dated October 22, 2024 submitted written reply to the SCN, wherein the Company *inter alia* submitted as under:

- i. The KYC/CDD forms of all nine (9) clients with written justifications for assigning low risk were provided to JIT during inspection and the same are submitted again in response to SCN.
- ii. It is assured that compliance with all the provisions of the AML/CFT/CPF Regulations will be made in future.

7. In order to provide the Company an opportunity of personal representation, hearing in the matter was scheduled for December 12, 2024 through zoom link on which date Mr. Khalid Butt (Chief Executive Officer) and Mr. Farhad Butt (Compliance Officer) appeared as the Authorized Representatives (**the "Authorized Representatives"**) on behalf of the Company. The Authorized Representatives reiterated the stance as taken vide letter dated October 22, 2024.

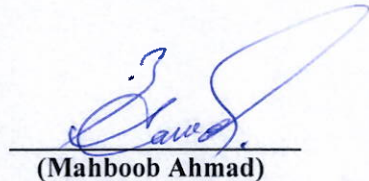
8. I have given due consideration to the written as well as verbal submissions and arguments extended by the Company through its Authorized Representatives, applicable provisions of the law and the material available on record. At this juncture, it is essential to address the following factual and legal elements:

- i. The Company submitted "KYC/CDD Checklist/ Risk Assessment Form" for all the nine (9) clients and it reveals that the Company has documented risk factors including country/geographical risk status, nationality status, net worth status, Politically Exposed Persons (**PEP**) and other relevant risk related elements and clarify these clients as low-risk. It has further been noted that the non-compliance was observed due to the reason that in part of the KYC/CDD Checklist/Risk Assessment Form titled "**Other Comments**", only "Low Risk" has been mentioned.
- ii. It has been noted that "Low Risk" in the KYC/CDD Checklist/Risk Assessment Form had been mentioned based on the result of KYC and CDD of the clients. Therefore, keeping in view that the Company has documented the justification for low-risk of these clients, it may not be held accountable for the contravention of Regulation 23(2) of the AML/CFT/CPF Regulations.
- iii. It is pertinent to apply the **Doctrine of Proportionality** in this matter. The alleged deficiency is nominal in nature and does not warrant the imposition of a maximum penalty or any punitive action. The Hon'ble Supreme Court of Pakistan, in the case of **PLD 1963 SC 382**, has held that "*the proper place of procedure in any system of administration of justice is to help and not to thwart the grant to the people of their rights. All technicalities have to be avoided unless it is essential to comply with them on grounds of public policy.*" It was further held that "*any system which by giving effect to the form and not the substance defeats substantive rights is defective to that extent.*"

iv. Further, in the case of **1993 SCMR 363**, the Hon'ble Apex Court held that "*a party should not be denied relief on account of technicalities in the procedural law, as the same are framed for the purpose of regulating the legal proceeding, they are intended and designed to foster the cause of justice rather than defeating it.*"

9. In view of the fore-going and submissions made by the Company, its Authorized Representatives, and the material available on record, the Company has adequately ensured compliance with **Regulation 23(2)** of the **AML/CFT/CPF Regulations** and submitted documentary evidence that satisfies the regulatory requirement.

10. Therefore, I, hereby, in exercise of the powers conferred upon me under **Section 6(A)(2)(h)** of the **AML Act** and **Rule 4(1)(a)** and **6(1)** of the **AML/CFT Rules**, conclude the proceedings without imposing any monetary penalty on the Company.



(Mahboob Ahmad)

Head of Wing (Adjudication Department-1)
Adjudication Department-I

Announced:
March 24, 2025
Islamabad.

