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**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN**

**Adjudication Department-I**

**Adjudication Division**

<b>ORDER</b>	
Name of Company:	M/s. TEZ Financial Services Limited
Number and Date of Show Cause Notice (the SCN):	ADJ-I/SCD/TFSL/09/2019-316 dated February 07, 2025
Respondent(s):	M/s. TEZ Financial Services Limited
Date(s) of Hearing(s):	(i) March 12, 2025
Case represented by:	(i) Ms. Naureen Hayat, CEO; (ii) Mr. Humza Hussain, Chief Operating Officer; (iii) Ms. Sania Kazi, Company Secretary and Chief Financial Officer; (iv) Mr. Rehan Shuja Zaidi, Head of Compliance; (v) Ms. Samar Masood, Legal Counsel; and (vi) Ms. Ena Murakami, Legal Counsel (As Authorized Representative)
Provisions of law involved:	Section 6A(2)(h) of the Anti-Money Laundering Act, 2010, read with Rule 4(1)(a) and Rule 6(1) of the AML/CFT Sanctions Rules, 2020, and Regulation 31(1) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering, Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020, for contravention of Regulation 8(3) thereof.
Date of the Order:	November 5, 2025

This Order shall dispose of the proceedings initiated by the Securities and Exchange Commission of Pakistan (the "Commission") through the Show Cause Notice No. ADJ-I/SCD/TFSL/09/2019-316 dated February 07, 2025 ("SCN") against M/s. TEZ Financial Services Limited (the "Company/Respondent") under Regulation 31(1) of the Securities and Exchange Commission of Pakistan (Anti Money Laundering / Combating the Financing of Terrorism and Countering Proliferation Financing) Regulations, 2020 (the "AML Regulations"), read with Section 6A(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 Rules") for contravention of regulation 8(3) of the AML Regulations.

2. The Company was incorporated on March 18, 2018 under the Companies Act, 2017 (the "Act") and licensed by the Commission on July 10, 2018 to carry out Non-Bank Microfinance business as a Non-Banking Finance Company (NBFC) under the Non-Banking Finance Companies (Establishment and Regulation) Rules, 2003 (the NBFC Rules).

3. The provisions of Regulation 8(3) of the AML Regulations require the regulated persons to assign a risk categorization to each customer based on the findings of the Customer Due Diligence (CDD) process.

4. The brief facts of the case are that an onsite inspection of the Company was conducted under Section 282I of the Companies Ordinance, 1984 (the Ordinance) and Section 6A(2)(f) of the AML Act vide inspection order number SECP/OD/TFSL/2023-24/213 dated February 02, 2024, covering the period up till December 31, 2023. The scope of the inspection was *inter alia* to assess compliance status of the Company with the applicable regulatory framework, along with review of operational activities, governance, internal control as well as AML/CFT compliance. The Inspection Team (the Team) shared its findings with the Management of the Company through a Letter of Finding dated June 28, 2024 (LOF), and the comments received thereon vide letter dated July 12, 2024 from the Company were duly included in the Inspection Report dated August 21, 2024 (the Inspection Report).

5. The Inspection Report revealed that the Company categorized all of its customers as low-risk without considering the outcome of CDD process. The Company disbursed loans including the Nano Loans (which are now discontinued) or Buy-Now-Pay-Later (BNPL) loans through customers' mobile wallets or directly into merchants' bank accounts. The Company particularly placed reliance on the banks to ensuring compliance with AML/CFT regulatory framework on the pretext that no cash was directly disbursed by the Company to the customers, minimizing the risk for the Company. The Company also considered BNPL loans as inherently

low-risk due to their product-backed nature and the direct payment made to merchants by the Company instead of borrowers. However, the Company failed to adequately assess and address the potential risks of AML/CFT and failed to gauge each customer's risk based on an apt CDD, *prima facie* in violation of regulation 8(3) of the AML Regulations.

6. The aforesaid alleged violation of regulation 8(3) of the AML Regulations attracts the penal provisions of regulation 31(1) of the AML Regulations read with Section 6A(2)(h) of the AML Act and Rule 4(1)(a) and 6(1) of the AML Rules. The relevant provisions of law are reproduced as under for ready reference:

**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."*

**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;"*

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

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

**Section 6(A)(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;"*

7. Taking cognizance of the matter, a SCN was served upon the Company calling upon it to show cause in writing as to why a penalty as provided under Section 6A(2)(h) of the AML Act, rules 4(1)(a) and 6(1) of the AML Rules read with regulation 31 of the AML Regulations, may not be imposed for contravening the above-mentioned provision of the law. In response to SCN, the Company vide its letter dated February 14, 2025 submitted that it did not receive the Onsite Inspection Report dated August 21, 2024 and is thus unaware of the final findings. The Company reiterated its position earlier submitted through letter dated July 12, 2024 (i.e. response to LOF) and informed that BNPL loans are inherently low risk, supported by digital AML/CFT controls including biometric verification, fraud checks, machine learning credit assessments, and screening against proscribed persons lists (World Check and NACTA). The Company emphasized that its AML framework meets the Commission's requirements, with structured borrower identification processes as per Annexure 1 of AML Regulations and daily monitoring of existing customers. Further, the Company submitted that subsequent to inspection, it:

1. Obtained Board approval (in July 2024) for categorizing borrowers as low risk, incorporating this into its AML Policy with the stipulation that Simplified Due Diligence (SDD) will not apply in cases of suspected ML/TF; and
2. Revised its AML/CFT Policy to strengthen controls in line with board recommendations.

In the said response to SCN, the Company also requested a copy of the Inspection Report along with minimum of 30 days time to address any findings.

8. Thereafter, the Company vide its letter dated March 4, 2025 *inter alia* submitted as under:

*"... We would also like to highlight that in our letter dated July 12, 2024, we submitted a detailed response to SECP's LOF, confirming full compliance with regulatory requirements..."*

*The lack of timely communication and transparency in SECP's process raises concerns about its approach, which seems to focus more on relaying correspondence rather than engaging in a substantive review of the facts and the Company's position. This approach does not align with SECP's role as a regulatory body tasked with ensuring fairness and due process.*

*...The issuance of the Hearing Notice has furthered our concerns regarding SECP's procedural conduct. Despite our submission of a detailed response to the SCN on February 14, 2025 and continue to issue one notice after another without affording the Company a fair opportunity to present its position and clear its name. This persistent disregard for due process raises serious questions about the transparency and integrity of SECP's actions...*

*In this regard, reliance is placed on the judgment reported as 2014 CLD 83 Islamabad, where Justice Muhammad Anwar, while interpreting Section 29 of the SECP Act, which empowers SECP to conduct investigations either suo moto or based on a complaint, observed:*

*"The function of the Commission is not that of a mere post office but of an agency under duty to conduct the prosecution of offence in fit case..."*

*This underscores the expectation that SECP must actively and independently assess matters before merely transmitting notices and responses without meaningful engagement which could have been achieved after our response to the LOF...*

*The Supreme Court of Pakistan in Saif Power Limited vs. Federation of Pakistan (CP No. 3263 of 2022) reaffirmed the distinction between the SECP's power of inspection and its power of investigation and observed that an inspection under section 231 does not grant SECP unlimited authority to scrutinize all aspects of a company's operations... In CSIBL (2007 CLD 1725)... Writ Petition No. 2162/2019 where the Lahore High Court acknowledged that "the exercise of discretion by the Commission would be guided/determined by the facts and circumstances of the case but has to be exercised in good faith without any bias, prejudice or ulterior motives... Judicial precedents reported in 2024 PLC (CS) 421, 2017 PLC (CS) 1020 and PLD 2023 Sindh 96 reaffirm this principle.. to act in good faith and uphold procedural fairness..."*

9. In order to provide an opportunity for personal representation, a hearing in the matter was fixed for March 12, 2025 which was attended by Ms. Naureen Hyat, Chief Executive Officer, Mr. Humza Hussain, Chief Operating Officer, Ms. Sania Kazi, Company Secretary and CFO, Mr. Rehan Shuja Zaidi, Head of Compliance, Ms. Samar Masood, Legal Counsel and Ms. Ena Murakami, Legal Counsel as Authorized Representative of the Respondent whereby the Authorized Representatives reiterated the written response to the SCN and also submitted the following:

- i. Inspection report was not shared with the Company and was only shared with a delay on February 17, 2025.
- ii. The AML policy including the risk categorization (as per NACTA list, PEP and credit scores) policy duly approved by the BoD will be shared with the Commission by March 14, 2025.

10. Subsequent to the hearing, the Representative submitted additional arguments vide email dated March 13, 2025 stating the following:

*"...With reference to the hearing, we would like to reiterate that the Company is compliant with the respective AML framework and has robust systems and processes in place to ensure compliance(s). As earlier shared with the Commission during the hearing and our correspondence via letters dated February 14, 2025 and March 4, 2025, we submitted a detailed clarification, reiterating that we had not received the Inspection Report until February 17, 2025, on the basis of which the SCN was issued to the Company. Additionally, we highlighted that some of the observations cited in the Letter of Findings and then the Inspection Report did not align with the practical operations of the Company and provided comprehensive*

explanations addressing each issue raised. In addition, concern was also raised regarding the lack of proper consideration within the Inspection Report of the Company's response to the Letter of Findings dated July 2024, as elaborated upon below.

In our response via letter dated July 12, 2024 (to the Letter of Findings dated June 28, 2024), we had submitted the rationale for considering BNPL loans as low risk in order to assess the risk of loan - based money laundering. In the SCN it is written in para serial no. 4 and we quote:

*"TFS relied on Banks for AML compliance on the pretext that no cash was directly disbursed to customers therefore, the risk is minimal. Moreover, the Company considered BNPL loans as inherently low-risk based on their product-backed nature and the direct payment to merchants instead of borrowers. However, it failed to adequately assess and address the potential risks of loan-based money laundering."*

In line with our earlier correspondence with the Commission and as clarified during our hearing, we respectfully state that the above observations are not correct with regard to the practicality and business carried out by the Company. Our application is white-listed and meets all the requirements prescribed by the SECP.

It is pertinent to highlight that the Inspection Team completely omitted key contextual points regarding the AML risk categorization process in the Letter of Findings via our letter dated July 12, 2024, submitted in core response to Observation 15 with no mention of our actual processes and controls in place for AML risk categorization. The observation highlighted in the SCN was in fact that the Company "relies on banks as a supplement to our existing AML risk categorization processes and controls and is in no way reliant on any bank's risk categorization for its AML compliance." The fact that loan amounts were disbursed into active bank accounts was considered as an "additional" comfort that the banks would also have implemented their own AML measures to ensure that the active bank accounts are compliant with the AML regulations. This has no bearing on the fact that the Company carries out its own risk categorization and AML procedures to ensure compliance.

As shared earlier with the Inspection Team and with the Commission via multiple correspondence, we wish to reiterate and reemphasize on our AML Risk Categorization process as follows:

1. The Company has deployed proper procedures and controls and state-of-the-art digital solutions for risk categorization, assessment and mitigation and its systems are fully digital with the criteria and checks in place.
2. The Company has deployed a proactive and prudent approach whereby the Company not only checks for AML risk of individuals prior to providing its financial services to customers but also post disbursement via daily automated checks on our customer databases to ensure that the existing borrowers have not been added to any of the proscribed persons lists, as may be updated by the authorities from time to time.
3. The Company's identification of borrowers based on the information available in Annexure 1 of AML/CFT Regulations 2020, and as highlighted in the response to observation #14, please note that the Company has a structured process implemented whereby the Company obtains the required information of the customers as required by the referred Annexure 1 of AML/CFT Regulations 2020, wherever applicable and verifies the identification prior to assigning a credit limit. This is supported by the use of digital controls, systems and procedures whereby the Company's customer onboarding process entails biometric verification, fraud checks using advanced algorithms to assess the identity of the borrower, and credit risk assessment using machine learning algorithms as well as checking of proscribed persons (known heightened-risk financial customers, including money launderers, fraudsters, terrorists, Politically Exposed Persons (PEPs), organized criminals, narcotics traffickers, arms dealers etc.) from the software i.e. World Check in addition to the list provided by NACTA. This is done prior to assigning a credit limit to any customer.
4. Furthermore, the Company also runs daily automated checks on the existing borrowers to check for any additions to the lists, as may be updated by the authorities from time to time.

5. It is pertinent to highlight that the Company has defined criteria within its systems to approve or reject customers, and this criterion is digitally developed whereby any customer that does not meet the risk requirements, i.e., is not a low-risk customer as classified by the system and thus is rejected from the financing offerings of the Company.

1. Board Approval for Low-Risk Categorization of BNPL Loans

Approval from the Board of Directors was sought in the meeting held in July 2024 on the low-risk categorization for borrowers of BNPL. Following is an extract of the board meeting minutes:

"The Board was informed that the Company has deployed proper procedures and controls and state-of-the-art digital solutions for risk categorization, assessment and mitigation and its systems are fully digital with the criteria and checks in place. The Company's identification of borrowers is based on the information available in Annexure 1 of AML/CFT Regulations 2020, has a structured process implemented whereby the Company obtains the required information of the customers as required by the referred Annexure 1 of AML/CFT Regulations 2020, wherever applicable and verifies the identification prior to assigning a credit limit.

This is supported by the use of digital controls, systems and procedures whereby the Company's customer onboarding process entails biometric verification, fraud checks using advanced algorithms to assess the identity of the borrower, and credit risk assessment using machine learning algorithms as well as checking of proscribed persons (known heightened-risk financial customers, including money launderers, fraudsters, terrorists, Politically Exposed Persons (PEPs), organized criminals, narcotics traffickers, arms dealers etc.) from the software i.e. World Check in addition to the list provided by NACTA.

This is done prior to assigning the credit limit while also running daily checks on the current borrowers to check for any additions to the lists, as may be updated by the authorities from time to time.

It is pertinent to highlight that the Company has defined criteria within its systems to approve or reject customers, and this criterion is digitally developed whereby any customer that does not meet the risk requirements, i.e. is not a low-risk customer as classified by the system and thus is rejected from the financing offerings of the Company."

"In line with Regulation 23 of the AML/CFT Regulations 2020, the Company has in-depth risk assessment and monitoring tools in place with the requisite systems, policies and controls to spot risks and identify the identified persons. Hence, it was agreed by the Board that the Company's borrowers commensurate with lower risk factors and are categorized as low risk, and resultantly can be placed under the Simplified Due Diligence (SDD). It was agreed that the same shall be incorporated within the AML Policy of the Company with specific mention for low-risk categorization. It was further highlighted that the Company shall not apply any Simplified SDD whenever there is a suspicion of money laundering or terrorist financing."

RESOLVED THAT the board has approved that the Company's borrowers shall be classified under the low-risk categorization as per the AML/CFT Regulations 2020 as they commensurate with lower risk factors and resultantly can apply Simplified Due Diligence (SDD) on its Borrowers.

FURTHER RESOLVED THAT the Company's AML Policy shall be updated to include the low-risk categorization of the Company's borrowers.

2. AML Policy Updated

The AML/CFT Policy of the Company was revised to further strengthen the AML framework and incorporate the suggestions of the board. Please find the attached "Annexure-A" containing major changes made to the AML Policy which also reflects the Company's efforts to adhere to the AML/CFT regulations...

Lastly, through this response, and without prejudice to any other available avenues, forums, or reliefs, we would like to once again highlight the serious procedural irregularities that have characterized the entire regulatory process. Despite the Inspection Report not being issued or observed during the hearing, the same was relied upon to support the issuance of subsequent enforcement action — denying the Company a fair opportunity to respond. Hence, SECP, as observed during the hearing, appeared to deem the process legally sound even amidst clear evidence of bias stemming from an undeclared, and apparently

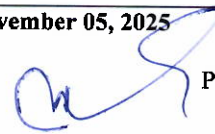
*commercially prejudiced, Inspection Report. The failure to provide or acknowledge the procedural lapses, had the same fairly disclosed to the Company in a timely access to the Inspection Report, the issuance of an SCN would either not have proceeded or been rightly and thoroughly challenged by the Company. These irregularities not only compromise the integrity of the process but also call into question the legitimacy of any regulatory action taken on the basis of such a flawed process...*

11. I have reviewed the facts of the case, and also considered the written and verbal submissions made by the Authorized Representatives. The provisions of **regulation 8(3) of the AML Regulations** mandate every regulated person to assign a risk categorization to *each customer* strictly on the basis of the findings of the **Customer Due Diligence (CDD)** process. The inspection report, however, clearly revealed that the Company unvaryingly categorized all of its customers as “low risk” without conducting an individualized risk-based assessment duly based on CDD outcomes. Evidently, the Company’s classification approach was premised on the characteristics of the products offered by the Company (i.e. BNPL loans being “product-backed” and digitally disbursed) and the fact that loan proceeds were routed through customers’ mobile wallets or directly to merchants’ bank accounts. The Company innately relied upon the AML compliance of the banks maintaining such accounts and labeled it as its own “additional comfort,” thereby displacing its own independent obligation to assess and categorize customer risk under the regulatory framework, as this law clearly bestowed such scrutiny on the shoulders of regulated person.

12. It is pertinent to note that such blanket categorization, without consideration of specific customer profiles, transaction patterns, geographic risk, and other relevant ML/TF risk indicators, does not meet the standard contemplated under the provisions of regulation 8(3) of the AML regulations. The Company’s own AML Policy, as revised post-inspection in July 2024 to formalize low-risk classification for BNPL customers, demonstrates that its prior risk categorization framework during the inspection period lacked the requisite CDD-based differentiation and was instead policy-driven by a pre-determined low-risk assumption. It is also echoed at this juncture that this revision made only after discrepancies were pointed out to the Company by the inspection team in June 2024 through Letter of Findings; however, subsequent rectification and revision of AML Policy by the Company cannot altogether absolve the Company from its obligation to ensure meticulous compliance of the AML/CFT laws at all times, which it has clearly violated during the review period of inspection. In a judgment passed by the Appellate Bench of the Commission in the matter of *AKD Investment Management Limited vs. Director/HoD Adjudication-I* (cited as 2024 CLD 762), it was held that “*subsequent rectification actions do not absolve the Appellants from committed violations.*” Similarly, in 2017 CLD 1019, it was rightfully held by the Appellate Bench of the Commission that “*...subsequent compliance cannot be a substitute of statutory [requirements]...the company being a public limited company has a responsibility to ensure full compliance of the provisions of the [law], therefore, the violation...cannot be excused and the penalty was rightly imposed on the Appellants.*” Be that as it may, even the approvals accorded by the Company’s board in July 2024 to revise its AML Policy state that the “*Company’s borrowers shall be classified under the low-risk categorization as they commensurate with lower risk factors...*” reflect that the categorization of risks of each of the customers of the Company (even if from the same category of BNPL loans) has still been generalized with merely a “one-size-fits-all” approach, without specifically catering for the fact that each customer may pose varying degrees of geographical risks, transactional patterns and carry distinguished backgrounds.

13. Another contention of the Company that its application is white-listed does not hold legally admissible basis for the proceedings at hand, since the instant case revolves around non-compliance of the Company with the requirements of AML Regulations and is inherently independent of any approval/permission/whitelisting requirements for the Company’s Application as applicable under the relevant NBFC framework. It is also pinpointed here that the Commission has accorded fair and reasonable opportunities to the Company to contest the allegations raised, duly in line with the principles of justice, good faith and procedural fairness – initially through issuance of LOF before issuance of Inspection Report (finalized after considering the response to the LOF received from the Company) and subsequently through issuance of the SCN carrying the alleged violations stemming from the Inspection Report in question (which was also subsequently shared with the Company on its request).

14. The contention of the Company regarding lack of transparency and due process is misconceived. The inspection was conducted strictly in accordance with law, and as per the scope of inspection clearly defined in the Inspection Order dated February 02, 2024. The Company was provided ample opportunity to respond at each stage, and its submissions were duly considered. The judgment reported as 2014 CLD 83 pertains to



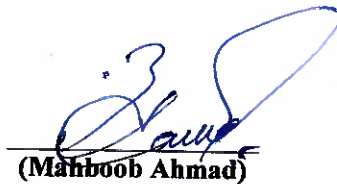
investigations under Section 29 of the SECP Act, 1997, which deal with prosecutorial functions of the Commission in cases of offences. The dictum referred to in 2014 CLD 83 emphasizes the proactive role of the Commission in ensuring regulatory compliance. Similarly, Saif Power Limited (CP No. 3263/2022) merely distinguishes between inspection and investigation and the other cited judgments—2007 CLD 1725, 2024 PLC (CS) 421, 2017 PLC (CS) 1020, PLD 2023 Sindh 96—only restate general principles of fairness, which have been duly observed throughout these proceedings. Accordingly, the reliance placed by the Company on these precedents is misplaced, and the allegation of procedural impropriety or lack of fairness is without any basis.

15. While digital verification tools, biometric checks, fraud analytics, and screening against proscribed persons' lists are commendable controls for countering the risks of establishing relationships with and thereafter lending to unregularized customers, these are supplementary measures and do not circumvent the fundamental default on part of the Company of not assigning customer-specific risk ratings based upon CDD results. It is hence clearly evident that the Respondent has failed to fulfil the mandatory obligation prescribed under the **regulation 8(3) of the AML Regulations**. Thus, the violation of regulation 8(3) of the AML Regulations stands established for the inspection period under review.

16. In view of the foregoing, the contravention of regulation 8(3) of the AML Regulations has been established, which attract the applicability of Section 6A(2)(h) of the AML Act, 2010 and Rules 4(1)(a) and 6(1) of the AML Rules, 2020, read with Regulation 31 of the AML Regulations. I have given due consideration to the written as well as verbal submission made by the Authorized Representatives in response to the said non-compliances. I, therefore, in terms of the powers conferred under Section 6A(2)(h) of the AML Act read with Regulation 31 of the AML Regulations and S.R.O. 827(I)/2022 dated June 09, 2022, impose a penalty of **Rs. 25,000/- (Rupees Twenty-Five Thousand Only)** on the Respondent on account of the established default.

17. The Respondent is hereby directed to deposit the aforesaid fine in the designated bank account maintained in the name of Securities and Exchange Commission of Pakistan with MCB Bank Limited or United Bank Limited within thirty (30) days from the date of this Order and furnish receipted voucher issued in the name of the Commission for information and record.

18. Without prejudice to the above, in case the Respondent is aggrieved by this Order it may, within thirty (30) days of the Order, prefer to file review application in terms of Section 32B of the SECP Act or may file an appeal to Appellate Bench of the Commission in terms of Section 33 of the SECP Act in accordance with the procedure for filing an appeal as laid down under the Securities and Exchange Commission of Pakistan (Appellate Bench Procedure) Rules, 2003.



(Mahboob Ahmad)

Additional Director / Head of Wing  
Adjudication Department-I

**Announced:**

November 05, 2025

Islamabad.