



SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Adjudication Department-I

Adjudication Division

Before

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

In the matter of

Seedcred Financial Services Limited

Show Cause Notice No. & Issue Date:	No. SECP/SCD/ADJ-I/Seedcred/67/2022- 3373 July 19, 2023
Date of Hearing:	August 31, 2023
Present at the Hearing Representing the Respondent	1. Mr. Muhammad Abrar Ameen, Chief Executive Officer; 2. Mr. Muneeb A. Cheema, General Counsel (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 July 17, 2023, (**the SCN**) by the Securities and Exchange Commission of Pakistan (**the Commission**) against Seedcred Financial 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), 9, 11, and 16 of the AML Regulations.

2. The Company was incorporated on June 11, 2021, as a public unlisted company under the Companies Act, 2017 (**the Act**) and licensed by the Commission on July 16, 2021, to undertake Investment Finance business as an NBFC under 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/SEEDCRED/2023/144 dated February 06, 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 findings/observations of the inspection team were shared through a Letter of Findings dated May 02, 2023 (**LOF**) with the management of the Company, and comments received from the management vide email dated May 22, 2023, were made part of the Inspection Report dated May 31, 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 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 risk categorization of clients by the Company revealed that all clients were classified as low risk. On enquiring about the basis for treating the clients as low risk, the Company responded vide email dated April 7, 2022, that, this is a risk identification performed by their AML-CFT system MSAASPRO. As these users did not hit the blacklist in the system, they were marked as low risk. If they hit the blacklist in the system, they would be marked as high risk and their credit would be rejected. Overall, their user group is basically low risk.

The above depicted that the Company's understanding regarding risk categorization was not correct, according to regulatory requirements of AML/CFT customers who match with the list of proscribed persons as mentioned/updated by NACTA/UNSC/MOI, then no business relationship can be established or continued with them and the regulated person is required to report to the Financial Monitoring Unit rather than marking them as High risk. For existing customers, the AML Regulations demand a comprehensive CDD of clients and to assign the risk category to them on the basis of CDD process, including by not limited to consider nature of client, geographical location, product and delivery channels used by such client/customer. Hence, the Company *prima facie* was non-compliant with the requirement of regulation 8(3) of the AML Regulations.

- ii) Regulation 9 of the AML Regulations requires all regulated persons to verify the identity of their customer using reliable and independent documents data and information as set out in Annexure 1 thereof (including the documents for identifying the source of income). Therefore, regulated persons should obtain sufficient information and documentation to verify the source of income of individuals, which may include documents such as business letters, Employee ID, salary slips, etc.

In this regard, the inspection team required the Company to provide details of documents obtained for identification of the clients. The Company shared the data of customers by identifying the Job Area and Job Type of the customers. Upon reviewing the data shared by the Company it was noted that Two (2) customers were marked as Employee with Job Area identified as Others and Finance & Banking. Accordingly, the Company was advised to provide documentary evidences which they collected to verify the source of income or job area of the clients. The Company had not provided any evidence/documents obtained to verify the source of income of these clients. Therefore, the Company was in violation of Note(i)(o) and (iii) of Annexure-I read with regulation 9 of the AML Regulations.

- iii) In terms of regulations 11 and 16 of the AML Regulations a regulated person before establishing a business relationship or during the course of establishing a business relationship is required to identify the beneficial owner and to take reasonable measures to verify the identity of the beneficial owner by using reliable and independent document, data or sources of information, such that the regulated person is satisfied that it knows who the beneficial owner is.

The Company shared its Standard Operating Procedures (SOP) for Call Handling and Customer Dealing, which provides that if a customer is unable to upload/edit his information on the application (App) like CNIC, picture, etc., he can apply for the registration of new account using his friend/family information. The aforesaid SOP appeared to grant a loan to a third person if



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the original application failed to fulfill the required conditions, thereby obscuring the identification of the beneficial owner of the loans, contrary to the requirement of regulation 11 and 16 of the AML Regulation 2020.

5. The aforesaid shortcomings, lapses, and contraventions indicated that the Company, prima facie, failed to comply with the requirements of regulations 8(3), 9 read with Note (i)(o) & (iii) of the Annexure-1, 11 and 16 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 9 of the AML Regulations: -

"The regulated person shall: ...

(b) verify the identity of that customer using reliable and independent documents, data and information as set out in Annex 1."

Note (i)(o) of the Annexure-1 read with Regulation 9 of the AML Regulations: -

"(i) For due diligence purposes, at the minimum following information shall also be obtained and recorded on KYC (Know Your Customer)/CDD form or account opening form:

(o) Profession / Source of Earnings / Income: Salary, Business, investment income."

Note (iii) of the Annexure-1 read with Regulation 9 of the AML Regulations: -

"(iii) In case of salaried person, in addition to CNIC, a copy of his salary slip or service card or certificate or letter on letter head of the employer will be obtained."

Regulation 11 of the AML Regulations: -

"The regulated person shall also identify the beneficial owner and take reasonable measures to verify the identity of the beneficial owner by using reliable and independent document, data or sources of information as set out in Annex 1, such that the regulated person is satisfied that it knows who the beneficial owner is."

Regulation 16 of the AML Regulations: -

"The regulated person should verify the identify the customer and beneficial owner before establishing a business relationship or during the course of establishing a business relationship."

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: -



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(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;”

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 24, 2023, submitted on merits as under:

“.....Our point-wise answer are as follows:

- i) Regulation 8(3) of AML Regulations – The process has been revised to meticulously fulfill the required Regulatory requirements. The inadvertent lapse which occurred in the previous processing phase is deeply regretted.*
- ii) Regulation 9 of AML Regulations – While every effort is made to record the required information in our system, while processing a loan application, the inadvertent lapse in these two instances is deeply regretted.*
- iii) Regulation 11 and 16 of AML Regulations – This option is not available to any applicant, and only the applicant himself can apply for a loan. In reality, we have not granted any loan to a nominee of an applicant, and the impression created by the said document is sincerely regretted. We have taken steps to have the language of that document amended to remove any ambiguity in this regard.*

We hope that these submissions would be positively considered by the Honourable Commission and accepted as a valid and justified response to all the observations raised in the aforesaid Showcause notice.”

8. In order to provide the Respondent an opportunity for personal representation, a hearing in the matter was fixed for August 4, 2023, however, upon receipt of an adjournment request from the Respondent, the said hearing was re-fixed for August 11, 2023. Thereafter, on receipt of another adjournment request from the Respondent, the said hearing was again re-schedule, and finally, the hearing was held on August 31, 2023, before the undersigned, wherein Mr. Muhammad Arbab Ameen, Chief Executive Officer; and Mr. Muneeb A. Cheema, General Counsel appeared as Authorized Representative of the Respondent (**Representatives**). The Representatives reiterated the written arguments submitted earlier in response to the SCN and admitted that they had some understanding issues regarding risk categorization of the customers, however, now they have updated their system accordingly. They keep updating their system to cater/include the requirement of AML laws. Regarding



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having provision in SOP to grant a loan to third part, the Representatives submitted that it was inadvertently written/included while drafting the SOP whereas in actual, the Respondent did not allow to take loan on someone else behalf. In the end, the Representatives assured to comply with the provisions of the law in the future and requested to take a lenient view in the matter.

9. 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. 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 had admitted this lapse and its Representatives had cited some understanding issues that led to its failure in assigning risk categorization to its customers. They further asserted that now they have updated their system and processes to assign the risk categorization to the clients, therefore, the lapses occurred previously is regretted.

However, it has been observed that the Respondent's failure, during the review period of the inspection, to comply with the stated requirements of AML Regulations 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. It is emphasized that the Respondent is required to ensure risk categorization of its each customer based on the outcome of CDD process as envisaged in the AML Regulations.

ii. Non-Verification of the details and source of income of the customers (regulation 9 of the AML Regulations):-

Regarding non-verification of CDD documents of the customers, Respondent, and its Representatives admitted their lapses in obtaining the documentary evidence to verify the source of income in respect of highlighted clients and assured that they will be careful in future.

In this regard, it is pertinent to mention that the Respondent, in terms of regulation 9 read with notes (i)(o) & (iii) of Annexure-1 of the AML Regulations, was explicitly required to obtain and verify the information regarding the source of income of its customers. Whereas, the Respondent admitted that the documentary evidence with regard to source of income of highlighted customers was missing in their record. Thus, non-compliance with the requirement of regulation 9 of the AML Regulations has been established.

iii. Grant loan to third person (regulations 11 & 16 of the AML Regulations):-

Regarding the provision of allowing the applicant for registration of a new account using his friend/family information, in case he/she was unable to upload his/her information on the App, the Respondent and its Representatives admitted that the SOP document for Call Handling and Customer Dealing inadvertently included the said provision. Whereas in reality, they do not allow any loan to the nominee of the client. They neither intended to nor provided any loan to a third person, it was just an inadvertent mistake while drafting the SOPs, and now they have taken steps to amend the language of the SOP document to remove any ambiguity. However, the detail of steps taken to address the issue and documentary evidence of rectification of the said SOP document has not been provided.



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It is pertinent to mention that SOPs are documented procedures created by a company that provides the specific instructions and guidance required to consistently complete a certain task or operation. They are used as a guide for how work must be done inside an organization and serve as proof of compliance with any rules, regulations, or operational guidelines that may be in force. By allowing the applicant to register its account using friend, family, or nominee information in an SOP document, the Respondent demonstrated its intentions to grant the loan to a third party in the event that the original applicant fails to meet the requirements, thereby obscuring the beneficial owner of the loans in contravention of the requirement of regulations 11 and 16 of the AML Regulations.

10. In view of the foregoing facts of the case, it is abundantly clear that contraventions of Regulations 8(3), 9, 11 and 16 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.2,500,000/- (Pak Rupees; Two Million and Five Hundred Thousand Only)** on the Respondent on account of the aforesaid conceded and established contraventions of the aforesaid provisions of AML/CFT.

11. 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.

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. 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:
November 1, 2023
Islamabad.