



KNOW YOUR CUSTOMER (KYC) & CUSTOMER DUE DILIGENCE (CDD)

(POLICY & PROCEDURES)

INTRODUCTION

In the last few years, across the world regulation have been put in place to discourage money laundering and financing of illegal/criminal activities. Furthermore, under the United Nation umbrella, several International agreements have been signed by U.N. member states under which member states are bound to implement policies that discourage money laundering and monitor financial transaction that are suspicious and raise concern about money laundering. Pakistan is a signatory to such agreement and is a member of relevant bodies such as Financial Task Force (FATF). Pakistan has to abide by the recommendation of FATF and other relevant bodies and implement appropriate policies and procedures. Pakistan has enacted the ANTIMONEY LAUNDERING ACT 2010. Financial institutions and intermediaries must comply with the provision of this Act.

This document set out according to the guidelines provided by the Securities & Exchange Commission of Pakistan on Know Your Customer (KYC) & Customer Due Diligence (CDD) Policies and Procedures and Anti Money Laundering ACT 2010. The said document would assist the concerned staff to understand and adopt these guidelines, which will help them to meet their regulatory obligations.

The said policy and procedures are in accordance with the Pakistan Stock Exchange Limited Rule Book Chapter 4. The Management of the Company with the help of the concerned staff will timely review the said document, to identify and establish any additional controls to strengthen the Know Your Customer (KYC) & Customer Due Diligence (CDD) policy and procedures of the Company.

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1. Customer Identification

- 1.1 Anonymous accounts or fictitious accounts should not be opened or maintained by the Equity/PMEX/MM/FX departments of the Company. Reasonable steps should be taken by the concerned staff to confirm the true identity of the prospective client and to collect all relevant information to ascertain the identity of the real controlling party of the trading account. For this purpose, Standard Account Opening Form along with the required documents as prescribed by the exchange obtained from every client for opening of account with the Company. Sales Person / Agent should ensure to fill the 'Annexure A - section A' after obtaining the required documents as mentioned in "**Annexure A**".
- 1.2 All the relevant documents should be obtained from the person authorized by the account holder to determine the true identity of the authorized person to act on behalf of the account holder. (**Ref: Annexure A – Section "B.1"**)
- 1.3 Reasonable measures should be taken into account to understand the beneficial ownership and control structure of the customer, in case of Company (legal persons). Identification of the natural persons with controlling interest representing the legal person or arrangement must be carried out. Further, authority given to a person to act on behalf of legal person must also be ensured. (**Ref: Annexure A – Section "B.2"**)
- 1.4 Accounts of Institutions, Corporate and Government nature must not be opened in the individual name of any employee/official/Government official. Any such account, which is to be operated by an officer of the Federal/Provincial/Local Government in his/her official capacity, shall be opened only on production of a special resolution/ authority from the concerned administrative department duly endorsed by the Ministry of Finance or Finance Department of the concerned Provincial or Local Government. (**Ref: Annexure A – Section "B.3"**)
- 1.5 Sufficient information must be obtain and documented on the intended nature of the account to be opened/maintained. Based on the outcomes of customer identification and the risk assessment, customer profile should be developed. Information regarding the intended investment plan of the customer must also be obtained and documented to the extent possible. (**Ref: Annexure B**)
- 1.6 Sufficient information must be obtained to determine the expected source of funding for the account; extra care should be taken particularly in case of foreign remittance. (**Ref: Annexure B**)

1.7 All receipts and payments to the customers above Twenty Five Thousand Rupees (Rs. 25,000/-) must be through cross cheques, bank drafts, pay orders or other crossed banking instruments. The Management will not encouraged the payments / receipts through cash below or equal to Rs. 25,000/-.

1.8 At the time of opening of account physical presence of the customer must be ensured by the concerned trader / staff. In case of off-shore/out of city clients appropriate procedures should be taken by the concerned trader/staff to confirm the true identity. **(Ref: Annexure A – Section “G”)**

2. Risk Assessment

2.1 Risk assessment of all the existing and prospective customers on the basis of information obtained regarding their identity, nature of income, source of funding, location etc must be carried out and based on the outcome of such assessment, customers should be categorized as high risk, medium risk or low risk. High Risk customers may include: **(Ref: Annexure A – Section “C”)**

- non-resident customers;
- legal persons or arrangements including non-governmental organizations; (NGOs) / not-for-profit organizations (NPOs) and trusts / charities;
- customers belonging to countries where CDD / KYC and anti-money laundering regulations are lax or if funds originate or go to those countries;
- Customers whose business or activities present a higher risk of money laundering such as cash based businesses;
- customers with links to offshore tax havens;
- high net worth customers with no clearly identifiable source of income;
- there is reason to believe that the customer has been refused brokerage services by another brokerage house;
- Non-face-to-face / on-line customers;
- establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations; and

- Politically Exposed Persons (PEPs) [individuals who are or have been entrusted with prominent public functions] or customers holding public or high profile positions, following customers may be classified as PEPs: **(Ref: Annexure A – Section “F”)**

- a. Senior politicians
- b. Senior government
- c. Judicial official
- d. Military officials
- e. Senior executives of state owned corporations
- f. Important political party officials etc.

2.2 Identification and documentation of the key risks such as money laundering and terrorist financing presented by the virtue business model, types of customers and geographical placement must be carried out.

3. Enhanced Due Diligence (Ref: Annexure A – Section “G.3”)

3.1 While dealing with high-risk customers Enhanced Due Diligence (EDD) should be exercised, such as monitoring activities and transactions of High-risk customers and reporting of any unusual transactions.

3.2 While establishing business relationships with High Risk customers, approval of senior management should be obtained.

3.3 Reasonable measures should be taken to establish the source of wealth and source of funds.

3.4 In case if the above requirements cannot be complied with, the account should not be opened, or the business relationship should be terminated, a Suspicious Transaction Report should also be submitted.

3.5 When the management is not able to identify and verify the identity of the customer and the beneficial owner or is not able to obtain adequate information regarding the purpose and intended nature of the customer relationship, it should not open the account, commence customer relationship or in the case of an existing customer should terminate the relationship and consider the filing of a Suspicious Transaction Report.

4. On-going Due Diligence

4.1 On-going Due Diligence on the customer relationship and scrutiny of transactions is undertaken to ensure that the transactions executed in a particular account are consistent with the management knowledge of the Customer, its business and risk profile, historical pattern of transactions and the pattern and source of funding of the account.

4.2 Customer records should be updated at regular intervals and sufficient information should be obtained regarding any significant change in the customer profile.

5. Simplified Due Diligence

5.1 While assessing the risk of money laundering or terrorist financing, it is certain that such risk is lower and information on the identity of the customer is easily available and adequate checks and controls exist, reduced / simplified Customer Due Diligence (CDD) may be applied.

5.2 Accordingly, following customers may be considered for simplified or reduced CDD:

- Financial institutions which are subject to requirements to combat money laundering and terrorist financing consistent with the Financial Task Force (FATF) Recommendations and are supervised for compliance with those controls
- Public companies that are subject to regulatory disclosure requirements
- Government administrations or enterprises

5.3 Simplified CDD should not be followed when there is an identified risk of money laundering or terrorist financing. Further, FATF guidelines must be referred when opting for simplified / reduced due diligence.

6. Data Retention

6.1 Record should be maintained for minimum period of five [5] years of all the relevant documents obtained through the application of KYC/CDD procedures, especially those pertaining to identification of the identity of a customer, account files and correspondence exchanged.

7. Training and Employee Screening

7.1 Appropriate on-going employee training program and knowledge refreshment shall be arranged to ensure that the employees understand their duties and are able to perform the same on a satisfactory level.

7.2 Staff shall be hired with extra care and all possible screening measures shall be taken including independent inquiries, information from previous employers/colleagues etc. Further, screening process shall be an on-going exercise and shall be applied consistently to ensure that employees, particularly those working at sensitive positions, meet and maintain high standards of integrity and professionalism.

8. Other requirements

8.1 All staff must comply with the requirements of Anti Money Laundering Act, 2010 as applicable on them, including the requirement to file Suspicious Transaction Reports and any directives, circulars, guidelines issued in this regard by Federal Government, Financial Monitoring Unit and SECP.

8.2 Any information concerning customers and their transactions shall be provided to the exchanges, Financial Monitoring Unit or the Commission as and when required.

8.3 The settlement department should ensure that KYC/CDD guidelines are being complied with as well as with other regulatory requirements. This includes maintaining record of violation/non-compliance identified which has to be reported to the Management of the Company. Any such record has to be available for inspection by SECP and PSX as and when required.