



**HG Markets (Private) Limited  
TREC Registration Number -**

**TREC Holder, Pakistan Stock Exchange Limited**

**POLICY AND PROCEDURES UPDATED IN LINE WITH NATIONAL  
RISK ASSESSMENT 2019 (NRA 2019)  
ANTI-MONEY LAUNDERING, COUNTER FINANCING OF  
TERRORISM AND PROLIFERATION FINANCING,  
KNOW YOUR CUSTOMER / CUSTOMER DUE DILIGENCE**

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## **Background**

Money Laundering (“ML”) and Terrorist Financing (“TF”) are economic crimes that threaten a country’s overall financial sector reputation and expose financial institutions to significant operational, regulatory, legal and reputational risks, if used for ML and TF. An effective Anti-Money Laundering and Countering the Financing of Terrorism (“AML/CFT”) regime requires financial institutions to adopt and effectively implement appropriate ML and TF control processes and procedures, not only as a principle of good governance but also as an essential tool to avoid involvement in ML and TF.

Securities and Exchange Commission of Pakistan (“SECP”), in order to maintain the integrity of its regulated financial sector inter-alia; the brokers in respect of preventing and combating ML and TF, notified the Securities and Exchange Commission of Pakistan Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018 (“the SECP AML/CFT Regulations ”or” the Regulations”). The SECP AML/CFT Regulations require relevant Regulated Persons (RPs) to establish systems to detect ML and TF, and therefore assist in the prevention of abuse of their financial products and services.

Additionally, SECP has issued detailed AML/CFT Guidelines (“the Guidelines”), which complements the SECP AML/CFT Regulations. These Guidelines are applicable to all Regulated Persons (“RPs”) as defined under the Regulations conducting relevant financial business and designed to assist RPs in complying with the Regulations. These Guidelines clarify and explain the general requirements of the legislation to help RPs in applying national AML/CFT measures, developing an effective AML/CFT risk assessment and compliance framework suitable to their business, and in particular, in detecting and reporting suspicious activities.

These Guidelines are based on Pakistan AML/CFT legislation and reflect, so far as applicable, the 40 Recommendations and guidance papers issued by the Financial Action Task Force (“FATF”).

The Policies and Procedures are updated in line with Pakistan’s updated National Risk Assessment on Money Laundering and Terrorism Financing, 2019 (“NRA 2019”) covering all aspects including transnational TF risks so as to introduce required controls including implementation of required systems for mitigation of ML/TF risks commensurate to the level of risk identified in the NRA 2019

### **1. Introduction, Purpose and Scope**

- These policy and procedures are in line with requirements of Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018 and the related Guidelines issued by the SECP.

This Policy and related procedures establishes the standards to which **HG Markets Pvt. Limited** (“the brokerage house”) should adhere to. This document will be used to create an understanding amongst employees concerning the risks of money laundering and terrorist financing. Accordingly, the brokerage house is required to adopt risk-based approach to prevent the brokerage house as a conduit for Money Laundering or Terrorist Financing activities.

## **2. Objective**

- i. Understand the obligation of establishing an effective AML/CFT regime to deter criminals from using financial system for ML or TF purposes.
- ii. Develop a comprehensive AML/CFT compliance program to comply with the relevant and applicable laws and obligations.
- iii. Brokerage house's Board of Directors and senior management are engaged in the decision making on AML/CFT policies, procedures and control and takes ownership of the risk-based approach.
- iv. Awareness of the level of ML/TF risk the brokerage house is exposed to and take a view on whether the brokerage house is equipped to mitigate that risk effectively.
- v. Establish and maintain an effective AML/CFT compliance culture and adequately train its staff to identify suspicious activities and adhere with the internal reporting requirements for compliance with the Regulations.
- vi. Establish written internal procedures so that, in the event of a suspicious activity being discovered, employees are aware of the reporting chain and the procedures to be followed.
- vii. Appoint a Compliance Officer ("CO") at the management level, who shall report directly to the Board of Directors ("Board") and shall be the point of contact with the supervisory authorities including the Commission and the Financial Monitoring Unit ("FMU").
- viii. Ensure that any suspicious transaction report must be made by employees to the CO, who are well versed in the different types of transactions which the brokerage house handles and which may give rise to opportunities for ML/TF.
- ix. Responsibility for ensuring that employees are aware of their reporting obligations and the procedure to follow when making a suspicious transaction report ("STR").

## **3. Definitions**

**Know your customer ("KYC")** is the process of identifying and verifying the identity of its customers and ascertain relevant information required for doing business with them. KYC involves:

- Seeking evidence of identity and address from the customer and independently confirming that evidence at the start of a relationship with the brokerage house and periodically updating the information as per customer risk classification; and
- Seeking information regarding the sources of income and nature of business etc. of the customer.

**Customer Due Diligence (“CDD”)** information comprises the facts about a customer that should enable an organization to assess the extent to which the customer exposes it to a range of risks. These risks include money laundering, terrorist financing and having business relationship with a sanctioned individual/entity or designated terrorist under Pakistan’s Anti-Terrorism law.

**Money Laundering (“ML”)** is the involvement of any transaction or series of transactions seeking to conceal or disguise the nature or source of proceeds derived from illegal activities, including narcotics trade, human trafficking, terrorism, ransom, extortion money, organized crime, fraud, and other crimes.

**Financing Terrorism (“TF”)** refers to activities that provide financing or financial support to individual terrorists or non-state actors.

**Customer** means any natural person, legal person or legal arrangement to whom financial services has been extended by a regulated person.

**Beneficial Owner** in relation to a customer of the brokerage house means, the natural person who ultimately owns or control a customer or the natural person on whose behalf a transaction is being conducted and includes the person who exercise ultimate effective control over a person or a legal arrangement.

**Legal Persons** means entities other than natural persons whether incorporated or not or a legal arrangement that can establish a permanent customer relationship with a regulated person or otherwise own property and include companies, bodies corporate, foundations, Limited Liability partnership (LLP), partnerships, or associations and other relevantly similar entities.

**FMU** means Financial Monitoring Unit established under section 6 of the AML Act, 2010.

**Regulated person** means securities brokers, commodities brokers, Insurers, Takaful Operators, NBFCs and Modarabas.

#### 4. Customer Identification

No account shall be opened in the name of person who fails to disclose his/her true identity or fails to provide valid identity document. To authenticate identity of new customer, legible and attested copy of CNIC / NICOP / Passport shall be obtained before account opening. The photocopies of identity documents shall be validated through NADRA Verisys, identifying presence of any adverse remarks in the comments. In case of an individual with shaky/immature signatures, in addition to CNIC, a passport size photograph of the new account holder will be obtained.

Source of income shall be essentially disclosed by the customer. In case source of customer’s income is business / employment, name of the business / employer shall also be disclosed. In case of a salaried person an attested copy of his service card or salary slip or certificate or letter on letter head of the employer will be obtained.

All prospective customers must be seen either face to face by the brokerage house’s customer service representative or trader or on video call through communication tool like Skype, Whatsapp etc. and details

verified over a recorded call on registered phone number.

For any new account opening form, the Compliance Department shall match the particulars of the customer from the UNSC Sanctions list obtained daily from UNSC website under consolidated sanction list (<https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list>) and Notifications of proscribed individuals/entities pursuant to the Anti-Terrorism Act, 1997 issued by Ministry of Interior obtained daily from National Counter Terrorism Authority's website (<http://nacta.gov.pk/proscribed-organizations/>) and if any matching name is found the account is being declined and reported to FMU simultaneously in the form of STR.

If a customer is acting on behalf of another person than the identity of that person will be ascertained and relevant documents of that person will also be obtained. These include CNIC / NICOP / Passport copy of person so acting on behalf of the original customer along with the signed authority letter of the customer and reason for appointment of such representative. CNIC of the representative is also verified through NADRA Verisys portal and screened against UNSC and terrorists databases as mentioned above.

For non-individual customers (e.g. companies, association of persons, pension funds, government owned entities, non-profit organizations, foreign companies/ organizations) additional care must be taken to understand the customer's business, establish the ownership and control structure of such an organization and who (i.e. person(s)) actually owns the organization and who manages it. It should be ensured that the person who represents himself as authorized signatory with powers to open and operate the brokerage account is actually authorized by the organization and obtain relevant information from the customer as per **Annexure 6**.

Accounts of Institutions / organizations / corporate bodies shall not be opened in the name of employee(s)/official(s).

## 5. Program and Systems to prevent ML and TF

- i. The brokerage house will establish and maintain programs and systems to prevent, detect and report ML/TF. The systems will be appropriate to the size of the brokerage house and the ML/TF risks to which it is exposed and will include:
  - a. Adequate systems to identify and assess ML/TF risks relating to persons, countries and activities which should include checks against all applicable sanctions lists;
  - b. Policies and procedures to undertake a Risk Based Approach ("**RBA**");
  - c. Identification of any, customer / joint account holder or their nominee or authorized persons or directors or beneficial owner or major shareholder who belong to high jurisdictions within Pakistan as identified in NRA update 2019
  - d. Identification of any, customer / joint account holder or their nominee or authorized persons or directors or beneficial owner or major shareholder who belong to high jurisdictions within outside Pakistan as identified in NRA update 2019
  - e. Assess the size, source and the nature of transaction whether incoming or outgoing customers pertaining to high risk jurisdictions both domestic and foreign.
  - f. Company will not open any Customers categories (e.g. Afghans diaspora) as identified in NRA 2019.
  - g. Identify Beneficial Owner refers to the natural person(s) who ultimately owns or controls a customer

and/or the natural person on whose behalf a transaction is being conducted.

- h. Beneficial Ownership of Legal Persons and Legal Arrangements: Identity of the customer, and understand the nature of its business, and its ownership and control structure in order to prevent the unlawful use of legal persons and arrangements and to take appropriate steps to mitigate the risks
  - i. Internal policies, procedures and controls to combat ML/TF, including appropriate risk management arrangements;
  - j. Customer Due Diligence measures;
  - k. Record keeping procedures;
  - l. Group-wide AML/CFT programs;
  - m. An audit function to test the AML/CFT system;
  - n. Screening procedures to ensure high standards when hiring employees; and
  - o. An appropriate employee-training program.
- ii. It will be the responsibility of the senior management to ensure that appropriate systems are in place to prevent, detect and report ML/TF and the brokerage house is in compliance with the applicable legislative and regulatory obligations.

## **6. The Three Lines of Defense**

i. The brokerage house will promote self-assessment culture at every level, making each function primarily accountable for its domain of responsibilities rather than dwelling on Compliance, Risk Management and Internal Audit to identify non-compliances, including ML/TF related non-compliance, in their reviews. To promote this Brokerage house will enforce three lines of defense concept;

- First Line: Although each unit will act as first line of defense for its own activities, the business units (e.g. front office, customer-facing staff/traders) and Operations department in particular will ensure in-depth knowledge of AML/CFT related requirements and will carry out the AML/CFT due diligence policies and procedures and be allotted sufficient resources and training to do this effectively.
- Second Line: This includes Compliance Department, Risk Management Department, Finance Department, Human Resources Department and Information Technology. These support functions will provide support for AML/CFT related compliances in the capacity of Brokerage house's second line of defense whereby, Finance will screen payments and ensure that cheques are received and paid to the customer only within defined threshold, Human Resource will perform adequate screening of each employee and ensure their timely trainings as per training schedule, Compliance will review fulfillment of all KYC related requirements at the time of on-boarding of customers/employees, review account closing and fund transfer processes at specified intervals, review of ongoing monitoring activities, provide support for continuous staff trainings, raising STRs and coordinating with all departments and regulatory bodies.
- Third Line: The Internal Audit function along with Board Audit Committee will act as the brokerage house's final line of defense, which will ensure that first two lines of defense are performing their duties, including AML/CFT related compliances, as per Brokerage house's established policies and procedures, and these policies and procedures are aligned with country's regulatory framework.

ii. In order to enable all employees in discharging their duties as first line of defense, policies and procedures will be clearly specified in writing and communicated to all employees. These will contain a clear description for employees of their obligations and instructions as well as guidance on how to keep the activities of the brokerage house in compliance with the Regulations. These include internal procedures for detecting, monitoring and reporting suspicious transactions.

iii. As part of second line of defense, the CO must have the authority and ability to oversee the effectiveness of the brokerage house's AML/CFT systems, compliance with applicable AML/CFT legislation and provide guidance in day- to-day operations of the AML/CFT policies and procedures.

iv. CO must be a person who is fit and proper to assume the role and who:

- (1) has sufficient skills and experience to develop and maintain systems and controls (including documented policies and procedures);
- (2) reports directly and periodically to the Board on AML/CFT systems and controls;
- (3) has sufficient resources, including time and support staff;
- (4) has access to all information necessary to perform the AML/CFT compliance function;
- (5) ensures regular audits of the AML/CFT program;
- (6) maintains various logs, as necessary, which should include logs with respect to declined business, politically exposed person ("PEPs"), and requests from Commission, FMU and Law Enforcement Agencies ("LEAs") particularly in relation to investigations; and
- (7) responds promptly to requests for information by the SECP/LEAs.
- (8) maintains confidentiality of affairs unless under duty to disclose to competent authority by operation of any law.

v. An independent Internal Audit function, the third line of defense, should periodically conduct AML/CFT audits on an Institution-wide basis and be proactive in following up their findings and recommendations. As a general rule, the processes used in auditing should be consistent with internal audit's broader audit mandate as approved by the Board, subject to any prescribed auditing requirements applicable to AML/CFT measures.

## **7. Risk Assessment and Applying a Risk Based Approach ("RBA")**

i. The RBA enables the brokerage house to ensure that AML/CFT measures are commensurate to the risks identified and allow resources to be allocated in the most efficient ways. RBA is applied keeping into consideration the brokerage house's size, geographical coverage, structure and business activities and applied the RBA on brokerage house, where appropriate e.g. daily system-based sanction screening. As a part of the RBA, The brokerage house:

- 1) Identify ML/TF risks relevant to it;
- 2) Assess ML/TF risks in relation to-
  - a. Its customers (including beneficial owners);
  - b. Country or geographic area in which its customers reside or operate and where the brokerage house operates;
  - c. Products, services and transactions that the brokerage house offers; and
  - d. Their delivery channels.



- 3) Design and implement policies, controls and procedures that are approved by its Board to manage and mitigate the ML/TF risks identified and assessed;
- 4) Monitor and evaluate the implementation of mitigating controls and improve systems where necessary;
- 5) Keep its risk assessments current through ongoing reviews and, when necessary, updates;
- 6) Implement and monitor procedures and updates to the RBA; and
- 7) Have appropriate mechanisms to provide risk assessment information to the Commission.

iii. Under the RBA, where there are higher risks, the brokerage house takes enhanced measures to manage and mitigate those risks; and correspondingly, where the risks are lower, simplified measures are permitted. However, simplified measures are not permitted whenever there is a suspicion of ML/TF. In the case of some very high-risk situations or situations which are outside the brokerage house's risk tolerance, the brokerage house may decide not to take or accept the customer, or to exit from the relationship. CO in such cases will consider need to raise an STR to FMU.

iv. In view of the fact that the nature of the TF differs from that of ML, the risk assessment must also include an analysis of the vulnerabilities of TF. Many of the CFT measures the brokerage house has in place will overlap with its AML measures. These may cover, for example, risk assessment, CDD checks, transaction monitoring, escalation of suspicions and liaison relationships with the authorities.

v. The process of ML/TF risk assessment has four stages:

- 1) Identifying the area of the business operations susceptible to ML/TF
- 2) Conducting an analysis in order to assess the likelihood and impact of ML/TF;
- 3) Managing the risks; and
- 4) Regular monitoring and review of those risks.

#### **a) Identification, Assessment and Understanding Risks**

i. The first step in assessing ML/TF risk is to identify the risk categories, i.e. customers, countries or geographical locations, products, services, transactions and delivery channels that are specific to the brokerage house.

ii. In the second stage, the ML/TF risks that can be encountered by the brokerage house need to be assessed, analyzed as a combination of the likelihood that the risks will occur and the impact of cost or damages if the risks occur. This impact can consist of financial loss to the brokerage house from the crime, monetary penalties from regulatory authorities or the process of enhanced mitigation measures. It can also include reputational damages to the business or the entity itself. The analysis of certain risk categories, their combination and the conclusion on the total risk level must be based on the relevant information available.

iii. For the analysis, the brokerage house will identify the likelihood that these types or categories of risk will be misused for ML and/or for TF purposes. This likelihood is for instance high, if it can occur several times per year,

medium if it can occur once per year and low if it is unlikely, but possible. In assessing the impact, the brokerage house will, for instance, look at the financial damage by the crime itself or from regulatory sanctions or reputational damages that can be caused. The impact can vary from minor if that are only in short-term or there are low-cost consequences, to very major, when they are found to be very costly inducing long-term consequences that affect the proper functioning of the institution.

iv. The following is an example of a likelihood scale with 3 risk ratings as an example.

| <b>Likelihood Scale</b>  |            |                 |             |
|--------------------------|------------|-----------------|-------------|
| <b>Consequence Scale</b> | <b>Low</b> | <b>Moderate</b> | <b>High</b> |
| Almost Certain           | Moderate   | Moderate        | High        |
| Possible                 | Moderate   | Moderate        | High        |
| Unlikely                 | Low        | Moderate        | Moderate    |

v. Brokerage house will allow for the different situations that currently arise in its business or are likely to arise in the near future. For instance, risk assessment should consider the impact of new products, services or customer types, as well as new technology. In addition, ML/TF risks will often operate together and represent higher risks in combination. Potential ways to assess risk include but are not limited to:

- 1) How likely an event is;
- 2) Consequence of that event;
- 3) Vulnerability, threat and impact;
- 4) The effect of uncertainty on an event;

vi. The assessment of risk will be informed, logical and clearly recorded. Further, the risk assessment should indicate how the brokerage house arrived at this rating.

***Risk Assessment (lower complexity)***

Brokerage house will assess risk by only considering the likelihood of ML/TF activity. This assessment will involve considering each risk factor that have been identified, combined with business experience and information published by the Commission and international organizations such as the FATF. The likelihood rating will correspond to:

- 1) Unlikely - There is a small chance of ML/TF occurring in this area of the business;
- 2) Possible - There is a moderate chance of ML/TF occurring in this area of the business;
- 3) Almost Certain - There is a high chance of ML/TF occurring in this area of the business

***Risk Assessment (moderate complexity)***

Another way to determine the level of risk is to work out how likely the risk is going to happen and cross-reference that with the consequence of that risk.

Using likelihood ratings and consequence ratings can provide the brokerage house with a more comprehensive understanding of the risk and a robust framework to help arrive at a final risk rating. These ratings, in combination with structured professional opinion and experience, will assist the brokerage house in applying the appropriate risk management measures as detailed in the program.

Cross-referencing possible with moderate risk results in a final inherent risk rating of moderate. The program should then address this moderate risk with appropriate control measures. Brokerage house will need to undertake this exercise with each of the identified risks.

***Risk Assessment (higher complexity)***

Brokerage house will further assess risk likelihood in terms of threat and vulnerability.

Determining the impact of ML/TF activity can be challenging but to focus AML/CFT resources in a more effective and targeted manner. When determining impact, Brokerage house can consider a number of factors, including:

- 1) Nature and size of your business (domestic and international);
- 2) Economic impact and financial repercussions;
- 3) Potential financial and reputational consequences;
- 4) Terrorism-related impacts;
- 5) Wider criminal activity and social harm;
- 6) Political impact;
- 7) Negative media.

Brokerage house will more weight to certain factors to provide a more nuanced understanding of your ML/TF risk. In addition, Brokerage house may consider how its risks can compound across the various risk factors.

**Applying the Risk Assessment**

The risk assessment will assist in ranking and prioritizing risks and providing a framework to manage those risks. The risk assessment will enable the brokerage house to prepare a comprehensive program. It will enable to meet relevant obligations under the regulations, including obligations to conduct CDD, monitor accounts and activities and report suspicious activity.

The assessment will help in determining suspicion and consequently assist in the decision to submit an STR to the FMU. The brokerage house will submit an STR to the FMU if it thinks that activities or transactions are suspicious.

The brokerage house will conduct ongoing CDD. The risk assessment will help target and prioritize the resources needed for ongoing CDD.

The brokerage house will undertake account monitoring. The risk assessment will help to design the triggers, red flags and scenarios that can form part of account monitoring.

***New and Developing Technologies and Products***

New and developing technologies and products can present unknown ML/TF risks and vulnerabilities. In addition, new methods of delivery may be able to bypass existing AML/CFT measures to allow anonymity and disguise beneficial ownership. The risk assessment will consider whether the business is, or may be, exposed to customers involved in new and developing technologies and products. The program will detail the procedures, policies and controls that the brokerage house will implement for this type of customer and technology.

### ***Material Changes and Risk Assessment***

The risk assessment will adapt when there is a material change in the nature and purpose of the business or relationship with a customer. A material change could present an increase, or decrease, in ML/TF risk.

Material change could include circumstances where the brokerage house introduces new products or services or have customers (or their beneficial owner) based in new jurisdictions. Material change can include when the brokerage house starts using new methods of delivering services or have new corporate or organizational structures. It could result from deciding to outsource CDD functions or changing your processes for dealing with PEPs. In these circumstances, the brokerage house will need to refresh its risk assessment.

- vii. Compliance resources are accordingly allocated to the areas with higher Inherent Risk to bring the Residual Risk within tolerable band. This risk assessment is an ongoing process and is reviewed on an annual basis to factor in new and emerging risks due to business dynamics and changes in regulatory framework. This include changes in risk levels as new products are offered, as new markets are entered, as high-risk customers open or close accounts, or as the products, services, policies, and procedures change. The brokerage house also has appropriate mechanisms to provide risk assessment information to the Commission, if required. This is done through a specially designed document which is provided as Annexure 1 to these policy and procedures.

### **Examples of Risk Classification Factors**

Below are some examples that can be helpful indicators of risk factors / indicators that may be considered while assessing the ML/TF risks for different risk categories relating to types of customers, countries or geographic areas, and particular products, services, transactions or delivery channels. However, this list is not exhaustive and staff should use critical thinking in determining risk of ML/TF.

### **High-Risk Classification Factors**

(1) Customer risk factors: Risk factors that may be relevant when considering the risk associated with a customer or a customer's beneficial owner's business include:

- (a) The business relationship is conducted in unusual circumstances (e.g. significant unexplained geographic distance between the brokerage house and the customer)
- (b) Non-resident customers
- (c) Politically Exposed Persons (PEPs)
- (d) Legal persons or arrangements
- (e) Companies that have nominee shareholders
- (f) Business that is cash-intensive.
- (g) The ownership structure of the customer appears unusual or excessively complex given the nature of the Customer's business such as having many layers of shares registered in the name of other legal persons
- (h) shell companies, especially in cases where there is foreign ownership which is spread across jurisdictions
- (i) trusts and other legal arrangements which enable a separation of legal ownership and beneficial ownership of assets
- (j) Requested/Applied quantum of business does not match with the profile/particulars of client
- (k) Not-For-Profit organization ("NPOs") with association with political parties or religious groups
- (l) Real estate dealers,

- (m) Dealers in precious metal and stones, and
- (n) Lawyers/notaries

**Example Scenarios of Customer Types**

**Small and Medium Sized Enterprises:**

Small and medium business enterprise customers usually entail domestic companies with simple ownership structures. Most of these businesses deal with cash and multiple persons that can act on its behalf. The likelihood that funds deposited are from an illegitimate source is HIGH, since it can't easily be identified and can have a major impact on a large number of SME customers. Thus, the risk assessment and risk rating result is HIGH.

**International corporations:**

International corporate customers have complex ownership structures with foreign beneficial ownership (often). Although there are only a few of those customers, it is often the case that most are located in offshore locations. The likelihood of Money Laundering is High because of the limited number of customers of this type and the beneficial ownership could be questionable, with two criteria that in this scenario result in a possible risk impact of moderate and a moderate risk assessment.

As an example, these descriptions can result in a table as depicted below:

| <i>Customer Type</i>                     | <i>Likelihood</i> | <i>Impact</i> | <i>Risk Analysis</i> |
|--|-------------------|---------------|----------------------|
| Retail Customer/ Sole Proprietor         | Moderate          | Moderate      | Moderate             |
| High Net Worth Individuals               | High              | High          | High                 |
| NGO/NPO                                  | High              | High          | High                 |
| International Corporation                | High              | Moderate      | Moderate             |
| PEP                                      | High              | High          | High                 |
| Brokerage house Listed on Stock Exchange | Low               | Low           | Low                  |

**Note: The above risk analysis is a general one for types or categories of customers. It is the starting point for the risk classification of an individual customer. Based on the circumstances of an individual customer, such as its background or information provided, the risk classification of an individual customer can be adjusted. Based on that individual risk classification, customer due diligence measures should be applied.**

(2) **Country or geographic risk factors:** Country or geographical risk may arise because of the location of a customer, the origin of a destination of transactions of the customer, but also because of the business activities of the brokerage house itself, its location and the location of its geographical units. Country or geographical risk, combined with other risk categories, provides useful information on potential exposure to ML/TF. The factors that may indicate a high risk are as follow:

- (a) Countries identified by credible sources, such as mutual evaluation or detailed assessment reports or published follow-up reports by international bodies such as the FATF, as not having adequate AML/CFT systems
- (b) Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations
- (c) Countries identified by credible sources as having significant levels of corruption or other criminal activity
- (d) Countries or geographic areas identified by credible sources as providing funds or support for terrorist activities, or that have designated terrorist organizations operating within their country
- (e) Entities and individuals from jurisdictions which are known tax heavens
- (f) Countries which are hostile to national interest of Pakistan or with which diplomatic relations are suspended

(3) **Product, service, transaction or delivery channel risk factors:** Brokerage house, while doing its ML/TF risk assessment, takes into account the potential risks arising from the products, services, and transactions that the brokerage house offers to its customers and the way these products and services are delivered. In identifying the risks of products, services, and transactions, the following factors are considered:

- (a) Anonymous transactions (which may include cash)
- (b) Non-face-to-face business relationships or transactions
- (c) Payments received from unknown or un-associated third parties
- (d) International transactions, or involve high volumes of currency (or currency equivalent) transactions
- (e) One-off transactions
- (f) Transaction for which payments are made from more than two bank accounts of a customer
- (g) Products that involve large payment or receipt in cash; and
- (h) One-off transactions.
- (i) Is the customer physically present for identification purposes? If they are not, has the brokerage house used a reliable form of non-face-to-face CDD? Has it taken steps to prevent impersonation or identity fraud?

#### **Low Risk Classification Factors**

(1) Customer risk factors: The customer is a regulated person or bank and is subject to requirements to combat money laundering and terrorist financing consistent with the FATF recommendations and are supervised for compliance with those requirements, or

Public listed companies that are subject to regulatory disclosure requirements to ensure adequate transparency of beneficial ownership;

(2) Product, service, transaction or delivery channel risk factors: Financial products or services that provide appropriately defined and limited services to certain types of customers

(3) Country risk factors:

- (a) Countries identified by credible sources, such as mutual evaluation or detailed assessment reports, as having effective AML/CFT systems.
- (b) Countries identified by credible sources as having a low level of corruption or other criminal activity. In making a risk assessment, the brokerage house could, when appropriate, also take into account possible variations in ML/TF risk between different regions or areas within a country.

#### **Risk Matrix**

In assessing the risk of money laundering and terrorism financing, the brokerage house will establish whether all

identified categories of risks pose a low, moderate, high or unacceptable risk to the business operations. The brokerage house will review different factors, e.g., number and scope of transactions, geographical location, and nature of the business relationship. In doing so, it must also review the differences in the manner in which it establishes and maintains a business relationship with a customer (e.g., direct contact or non-face-to-face). It is due to the combination of these factors and the variety of their combinations, that the level of money laundering and terrorism financing differs from institution to institution. The geographical risk should be seen in correlation with other risk factors in order to come up with an assessment of the total money laundering and terrorism financing risk.

The brokerage house will use a risk matrix as a method of assessing risk in order to identify the types or categories of customers that are in the low-risk category, those that carry somewhat higher, but still acceptable risk, and those that carry a high or unacceptable risk of money laundering and terrorism financing.

The development of a risk matrix can include the consideration of a wide range of risk categories, such as the products and services offered by the brokerage house, the customers to whom the products and services are offered, the size and organizational structure, etc. A risk matrix is not static: it changes as the circumstances of the brokerage house change. A risk analysis will assist the brokerage house to recognize that ML/TF risks may vary across customers, products, and geographic areas and thereby focus its efforts on high-risk areas in its business.

The following is an example of a risk matrix of client product combination,

| <u>Customer Transaction</u>              | <u>Online Transactions</u> | <u>Domestic Transfers</u> | <u>Deposit or Investment</u> | <u>Securities Account</u> |
|--|----------------------------|---------------------------|------------------------------|---------------------------|
| Domestic Retail Customer                 | Moderate                   | Moderate                  | Moderate                     | Low                       |
| High Net Worth Customers                 | High                       | Moderate                  | High                         | Moderate                  |
| SME Business Customer                    | High                       | Moderate                  | High                         | Moderate                  |
| International Corporation                | High                       | Moderate                  | High                         | Moderate                  |
| Brokerage house Listed on Stock Exchange | Moderate                   | Low                       | Moderate                     | Low                       |
| PEP                                      | High                       | Moderate                  | High                         | Moderate                  |
| Mutual Fund Transactions                 | High                       | Moderate                  | High                         | N/A                       |

***Note: When conducting risk assessment, the brokerage house does not have to follow the processes in this document. As long as it complies with the obligations under the Act and any other applicable laws or regulations, the brokerage house has a choice to select the method of risk.***

## **b) Risk Management**

### **Risk Mitigation**

i. Brokerage house will develop appropriate policies, procedures and controls that will enable it to manage and mitigate effectively the inherent risks that it has identified, including the national risks. Brokerage house will monitor the implementation of those controls and enhance them, if necessary. The policies, controls and procedures will be approved by the senior management of the brokerage house, and the measures will be taken to manage and mitigate the risks (whether higher or lower) to ensure that measures are consistent with legal and regulatory requirements.

ii. The nature and extent of AML/CFT controls the brokerage house puts in place depends on a number of aspects, which include:

- 1) The nature, scale and complexity of the brokerage house's business
- 2) Diversity, including geographical diversity of the brokerage house's operations
- 3) Brokerage house's customer, product and activity profile
- 4) Volume and size of transactions
- 5) Extent of reliance or dealing through third parties or intermediaries, which is minimal in case of Brokerage house and restricted to Administration department related services

iii. Some of the risk mitigation measures that the brokerage house may consider include:

- 1) determining the scope of the identification and verification requirements or ongoing monitoring based on the risks posed by particular customers
- 2) setting transaction limits for higher-risk customers or products
- 3) requiring senior management approval for higher-risk transactions, including those involving PEPs
- 4) determining the circumstances under which they may refuse to take on or terminate/cease high risk customers/products or services
- 5) determining the circumstances requiring senior management approval (e.g. high risk or large transactions, when establishing relationship with high risk customers such as PEPs)

#### **Evaluating Residual Risk and Comparing with the Risk Tolerance**

Subsequent to establishing the risk mitigation measures, the brokerage house will evaluate its residual risk, which is the risk remaining after taking into consideration the risk mitigation measures and controls. Residual risks are kept in line with the brokerage house's overall risk tolerance and this sets the cornerstone of accepting and continuing business relations.

#### **8. Monitoring AML/CFT Systems and Controls**

i. The brokerage house will have systems in place to monitor the risks identified and assessed as they may change or evolve over time due to certain changes in risk factors, which may include changes in customer conduct, development of new technologies, new embargoes and new sanctions. The brokerage house will update their systems as appropriate to suit the change in risks.

ii. Additionally, the brokerage house will assess the effectiveness of their risk mitigation procedures and controls, and identify areas for improvement, where needed. For that purpose, the brokerage house will need to consider monitoring certain aspects which include:

- 1) the ability to identify changes in a customer profile or transaction activity/behavior, which come to light in the



normal course of business;

- 2) the potential for abuse of products and services by reviewing ways in which different products and services may be used for ML/TF purposes, and how these ways may change, supported by typologies/law enforcement feedback, etc.;
- 3) the adequacy of employee training and awareness;
- 4) the adequacy of internal coordination mechanisms i.e., between AML/CFT compliance and other functions/areas;
- 5) the compliance arrangements (such as internal audit);
- 6) changes in relevant laws or regulatory requirements; and
- 7) Changes in the risk profile of countries to which the brokerage house or its customers are exposed to.

### **9. Documentation and Reporting**

i. Documentation of relevant policies, procedures, review results and responses will enable the brokerage house to demonstrate to the Commission:

- 1) risk assessment systems including how the brokerage house will assess ML/TF risks;
- 2) details of the implementation of appropriate systems and procedures, including due diligence requirements, in light of its risk assessment;
- 3) how it will monitor and, as necessary, improves the effectiveness of its systems and procedures; and
- 4) the arrangements for reporting to senior management on the results of ML/TF risk assessments and the implementation of its ML/TF risk management systems and control processes.

ii. The brokerage house will note that the ML/TF risk assessment is not a one-time exercise and therefore, they must ensure that their ML/TF risk management processes are kept under regular review which is at least annually. Further, the brokerage house management should review the program's adequacy when the reporting entity adds new products or services, opens or closes accounts with high-risk customers, or expands through mergers or acquisitions.

iii. The brokerage house will demonstrate to the Commission, the adequacy of its assessment, management and mitigation of ML/TF risks; its customer acceptance policy; its procedures and policies concerning customer identification and verification; its ongoing monitoring and procedures for reporting suspicious transactions; and all measures taken in the context of AML/CFT, during the SECP's on-site inspection. The brokerage house will maintain Risk Assessment Tables (Annexure 1), AML/CFT Compliance Assessment Template (Annexure 2) and Control Assessment Template (Annexure 3) within the period as required by the Commission from time to time.

### **10. New Products and Technologies**

The brokerage house will design a special template to identify and assess ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products such as:

- 1) Electronic verification of documentation;
- 2) Data and transaction screening systems; or
- 3) The use of virtual or digital currencies

Brokerage house will undertake a risk assessment prior to the launch or use of such products, practices and

technologies; and take appropriate measures to manage and mitigate the risks.

These policy and procedures provides governance framework to prevent the misuse of technological development in ML/TF schemes, particularly those technologies that favour anonymity. For example, securities trading and investment business on the Internet, add a new dimension to the brokerage house's activities. The unregulated nature of the Internet is attractive to criminals, opening up alternative possibilities for ML/TF, and fraud.

To insulate itself against risk of anonymity of customer, Brokerage house will offer an on-line account opening only after appropriate identification checks and fulfillment of its all applicable KYC requirements.

To maintain adequate systems, the brokerage house will ensure that its systems and procedures will be kept up to date with such developments and the potential new risks and impact they may have on the products and services offered by the brokerage house. Risks identified must be fed into the brokerage house business risk assessment.

### **11. Cross-border Correspondent Relationship**

Cross-border correspondent relationships are the provision of services by one institution to another institution (thespondent institution). Correspondent institutions that process or execute transactions for their customer's (i.e. respondent institution's) customers may present high ML/TF risk and as such may require Enhanced Due Diligence("EDD").

### **12. Customer Due Diligence**

Brokerage house will take steps to know who their customers are. The brokerage house as a policy matter will not open anonymous accounts or accounts in fictitious names and alias. Hence, for customers which are natural person, names contained in their CNIC / NICOP / Passports will be used as title of account, and same is verified from NADRA Verisys record. For entities the title of account offered is same as the one contained in their establishing/incorporation document. The brokerage house will conduct CDD, which will comprise of identification and verification of customers including beneficial owners (such that it is satisfied that it knows who the beneficial owner is), understanding the intended nature and purpose of the relationship, and ownership and control structure of the customer.

Additionally, Brokerage house will conduct ongoing due diligence on the business relationship and scrutinize transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the brokerage house's knowledge of the customer, its business and risk profile (Annexure 4), including, where necessary, the source of funds. The brokerage house will conduct CDD when establishing a business relationship if:

(1) There is a suspicion of ML/TF, Annexure 5 gives some examples of potentially suspicious activities or "red flags" for ML/TF. Although these may not be exhaustive in nature, it may help the brokerage house to recognize possible ML/TF schemes and may warrant additional scrutiny, when encountered. The mere presence of a red flag is not by itself evidence of criminal activity. Closer scrutiny will assist in determining whether the activity is unusual or suspicious or one for which there does not appear to be a reasonable business or legal purpose; or

(2) There are doubts as to the veracity or adequacy of the previously obtained customer identification information.

In case of suspicion of ML/TF, the brokerage house will:

(1) Seek to identify and verify the identity of the customer and the beneficial owner(s), irrespective of any specified threshold that might otherwise apply; and

(2) File an STR with the FMU, in accordance with the requirements under the Law.

Brokerage house will monitor transactions to determine whether they are linked. Transactions could be deliberately restructured into two or more transactions of smaller values to circumvent the applicable threshold.

Brokerage house will verify the identification of a customer using reliable independent source documents, data or information including verification of CNICs from Verisys. Similarly, the brokerage house will identify and verify the customer's beneficial owner(s) to ensure that the brokerage house understands who the ultimate beneficial owner is.

Brokerage house will ensure that it understands the purpose and intended nature of the proposed business relationship or transaction. The brokerage house will assess and ensure that the nature and purpose are in line with its expectation and use the information as a basis for ongoing monitoring.

The Regulations require the brokerage house to identify and verify the identity of any person that is purporting to act on behalf of the customer ("authorized person"). In this regard Brokerage house will also verify whether that authorized person is properly authorized to act on behalf of the customer by demanding an authorization letter in Brokerage house's designed pro-forma (which requires reason for using third person) and matching customer signatures against those in Brokerage house's record. Customer Call Back confirmation will also be performed where customer signatures would be doubtful. The brokerage house will conduct CDD on the authorized person(s) using the same standards that are applicable to a customer.

Brokerage house may differentiate the extent of CDD measures, depending on the type and level of risk for the various risk factors. For example, in a particular situation, they could apply normal CDD for customer acceptance measures, but enhanced CDD for ongoing monitoring, or vice versa.

When performing CDD measures in relation to customers that are legal persons or legal arrangements, the brokerage house identifies and verifies the identity of the customer, and understand the nature of its business, and its ownership and control structure.

The purpose of the requirements set out regarding the identification and verification of the applicant and the beneficial owner is twofold: first, to prevent the unlawful use of legal persons and arrangements, by gaining a sufficient understanding of the applicant to be able to properly assess the potential ML/TF risks associated with the business relationship; and second, to take appropriate steps to mitigate the risks. In this context, the brokerage house will identify the customer and will verify its identity. The type of information that will be needed to perform this function shall be as specified in Annexure 6.

If the brokerage house will have any reason to believe that an applicant has been refused facilities by another Brokerage house due to concerns over illicit activities of the customer, it will consider classifying that applicant as higher-risk and will apply enhanced due diligence procedures to the customer and the relationship, filing an STR

and/or not accepting the customer in accordance with its own risk assessments and procedures.

**a) Timing of Verification**

i. The brokerage house will undertake verification prior to entry into the business relationship or conducting a transaction.

ii. Where CDD checks will raise suspicion or reasonable grounds to suspect that the assets or funds of the prospective customer may be the proceeds of predicate offences and crimes related to ML/TF, the brokerage house will decline trading accounts to such customers. In such situations, the brokerage house will consider filing an STR with the FMU and will ensure that the customer is not informed, even indirectly, that an STR has been, is being or shall be filed.

**b) Existing Customers**

The brokerage house will apply CDD/EDD measures to existing customers on the basis of materiality and risk, and to conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained. For this purpose, Brokerage house will perform CDD/EDD measures on its existing customers at the frequency as defined in the following section of Period Risk Reviews.

Further, if the brokerage house will have suspicion of ML/TF or will become aware at any time that it lacks sufficient information about an existing customer, it will take steps to ensure that all relevant information is obtained as quickly as possible irrespective of CDD/EDD revised information collection frequency set as per risk classification of customer.

Brokerage house will rely on the identification and verification steps that it has already undertaken, unless it has doubts about the veracity of that information. Examples of situations that might lead Brokerage house to have doubt include significant change in the value of injections into his/her trading account, or change in correspondent address to an area / country with high susceptibility to money laundering, terrorist financing or other predicated offences.

Where the brokerage house will be unable to complete and comply with ongoing CDD/EDD requirements as specified above, the brokerage house will terminate the relationship. Additionally, the brokerage house will consider filing an STR to the FMU.

**c) Tipping-off & Reporting**

The Law prohibits tipping-off any information about the suspicious matter to the concerned customer or to a person not relevant in the process of filing an STR. However, a risk exists that customers could be unintentionally tipped-off when the brokerage house is seeking to complete its CDD obligations or obtain additional information in case of suspicion of ML/TF. The applicant/customer's awareness of a possible STR or investigation could compromise future efforts to investigate the suspected ML/TF operation.

Therefore, if the brokerage house will form a suspicion of ML/TF while conducting ongoing CDD/EDD, it will take into account the risk of tipping-off when performing the CDD process. If the brokerage house reasonably

believes that performing the CDD or on-going process will tip-off the applicant/customer, it might not pursue that process, and will file an STR. For this brokerage house will ensure that its employees are aware of, and sensitive to, these issues when conducting CDD or ongoing CDD/EDD.

**d) No Simplified Due Diligence for Higher-Risk Scenarios**

The brokerage house will not adopt simplified due diligence measures where the ML/TF risks are high. The brokerage house will identify risks and have regard to the risk analysis in determining the level of due diligence to be performed in each case.

**13. Period Risk Review (“PRR”)**

The brokerage house will perform periodic customer profile updating exercise every two years for customers classified as high risk while perform this exercise every four years for Low risk classified customers.

The brokerage house will consider updating customer CDD records as a part its periodic reviews (within the timeframes set by the brokerage house based on the level of risk posed by the customer) or on the occurrence of a triggering event, whichever is earlier. Examples of triggering events include:

- (1) Material changes to the customer risk profile or changes to the way that the account usually operates;
- (2) Where it comes to the attention of the brokerage house that it lacks sufficient or significant information on that particular customer;
- (3) Where a significant transaction takes place;
- (4) Where there is a significant change in customer documentation standards;
- (5) Significant changes in the business relationship.

Examples of the above circumstances include:

- (1) A significant increase in a customer’s deposits,
- (3) The stated turnover or activity of a customer increases,
- (4) A person has just been designated as a PEP,
- (5) The nature, volume or size of transactions changes.

**14. On-going Monitoring of Business Relationships**

i. Once the identification procedures will be completed and the business relationship will be established, the brokerage house will monitor the conduct of relationship to ensure that it is consistent with the nature of business stated when the relationship/account was opened. The brokerage house will conduct ongoing monitoring of their business relationship with their customers. Ongoing monitoring helps the brokerage house to keep the due diligence information up-to-date, and review and adjust the risk profiles of the customers, where necessary.

- The brokerage house will conduct an on-going due diligence which will include scrutinizing the transactions undertaken throughout the course of the business relationship with a customer. Further, the brokerage house’ risk department has put in place a weekly review mechanism which includes comparison of client deposits and available KYC/CDD clients’ information to confirm that the clients have disclosed adequate income sources to justify the value of deposits. Where inadequacy is identified additional documents/information is obtained from the clients by sending emails and making follow-up

calls. Where clients provides the required document, their profile is updated. In cases where clients do not provide the requisite information, the same is discussed with Head of Risk on a client to client basis and recommendation is made to CO for necessary course of action including re-categorization of client's risk category and/or filing STR with FMU.

Brokerage house will stay vigilant for any significant changes or inconsistencies in the pattern of transactions. Inconsistency is measured against the stated original purpose of the accounts and the customer updated KYC profile. Possible areas to monitor could be:

- (1) transaction type
- (2) frequency
- (3) amount
- (4) geographical origin/destination
- (5) account signatories
- (6) mandate

It is recognized that the most effective method of monitoring of accounts is achieved through a combination of computerized and human manual solutions. A corporate compliance culture, and properly trained, vigilant staff through their day-to-day dealing with customers, will form an effective monitoring mechanism. Hence, brokerage house take support of the technology to the extent possible while use manual procedures where current technology does not support certain report types and analysis. For example, screening against UNSC consolidate sanctions list is performed daily through an internally developed matching and alerts-based solution while individual transactions of customers are matched against customer profiles using Microsoft Excel spreadsheet analytical tool.

### **15. Simplified Due Diligence Measures (“SDD”)**

The brokerage house may conduct SDD in case of lower risks identified by it. However, the brokerage house will ensure that the low risks it identified commensurate with the low risks identified by the country or the Commission. While determining whether to apply SDD, brokerage house pays particular attention to the level of risk assigned to the relevant sector, type of customer or activity.

The simplified measures brokerage house will apply shall be commensurate with the low risk factors.

Brokerage house however will not use SDD procedures in higher-risk scenarios where there is an increased risk, or suspicion that the applicant is engaged in ML/TF, or the applicant is acting on behalf of a person that is engaged in ML/TF.

Where the brokerage house to take SDD measures on an applicant/customer, it will document the full rationale behind such decision and maintain its record to make it available to the Commission on request.

### **16. Enhanced CDD Measures (“EDD”)**

The brokerage house will examine, as far as reasonably possible, the background and purpose of all complex, unusual large transactions, and all unusual patterns of transactions, that have no apparent economic or lawful purpose.

Where the risks of ML/TF are higher, or in cases of unusual or suspicious activity, the brokerage house will conduct enhanced CDD measures, consistent with the risks identified. In particular, the brokerage house will increase the degree and nature of monitoring of the business relationship, in order to determine whether those transactions or activities appear unusual or suspicious.

iii. Examples of enhanced CDD measures that could be applied for high-risk business relationships include:

- (1) Obtaining additional information on the applicant/customer (e.g. occupation, volume of assets, information available through public databases, internet, etc.).
- (2) Updating more regularly the identification data of applicant/customer and beneficial owner.
- (3) Obtaining additional information on the intended nature of the business relationship.
- (4) Obtaining additional information on the source of funds or source of wealth of the applicant/customer.
- (5) Obtaining additional information on the reasons for intended or performed transactions.
- (6) Obtaining the approval of senior management to commence or continue the business relationship.
- (7) Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

#### **a) High-Risk Countries**

Certain countries are associated with crimes such as drug trafficking, fraud and corruption, and consequently pose a higher potential risk to the brokerage house. Conducting a business relationship with an applicant/customer from such a country exposes the brokerage house to reputational risk and legal risk.

The brokerage house will exercise additional caution and conduct enhanced due diligence on individuals and/or entities based in high-risk countries.

Caution will also be exercised in respect of the acceptance of certified documentation from individuals/entities based in high-risk countries/territories and appropriate verification checks will be undertaken on such individuals/entities to ensure their legitimacy and reliability.

Brokerage house therefore will consult publicly available information to ensure that they are aware of the high-risk countries/territories. While assessing risk of a country, the brokerage house will also consider among the other sources, sanctions issued by the UN, the FATF high risk and non-cooperative jurisdictions, the FATF and its regional style bodies (FSRBs) and Transparency international corruption perception index.

Useful websites include: FATF website at [www.fatf-gafi.org](http://www.fatf-gafi.org) and Transparency International, [www.transparency.org](http://www.transparency.org) for information on countries vulnerable to corruption.

Information about these high-risk geographies will be provided to employees in on-going trainings and will be disseminated once every six months.

### **17. Politically Exposed Persons**

i. Business relationships with individuals holding important public positions and with persons or companies clearly related to them may expose the brokerage house to significant reputational and/or legal risk. The risk occurs when such persons abuse their public powers for either their own personal benefit and/or the benefit of others

through illegal activities such as the receipt of bribes, grease money or commit fraud. Such persons, commonly referred to as PEPs and defined in the Regulations, include inter-alia, heads of state, ministers, influential public officials, judges and senior military officials and includes their family members and close associates, hereinafter referred to as linked PEPs.

Family members of a PEP are individuals who are related to a PEP either directly (consanguinity) or through marriage or similar (civil) forms of partnership. Close associates to PEPs are individuals who are closely connected to PEP, either socially or professionally.

Provision of financial services to corrupt PEPs exposes the brokerage house to reputational risk and costly information requests and seizure orders from law enforcement or judicial authorities. Hence, brokerage house will remain extra vigilant in relation to PEPs from all jurisdictions, who are seeking to establish business relationships. The brokerage house should, in relation to PEPs, in addition to performing normal due diligence measures will:

- (1) have appropriate risk management systems to determine whether the customer is a PEP;
- (2) obtain senior management approval for establishing business relationships with such customers;
- (3) take reasonable measures to establish the source of wealth and source of funds; and
- (4) conduct enhanced ongoing monitoring of the business relationship.

Brokerage house will obtain senior management approval to continue a business relationship once a customer or beneficial owner is found to be, or subsequently becomes, a PEP.

Brokerage house will take a risk-based approach to determine the nature and extent of EDD where the ML/TF risks are high. In assessing the ML/TF risks of a PEP, Brokerage house will consider factors such as whether the customer who is a PEP:

- (1) Is from a high-risk country;
- (2) Has prominent public functions in sectors known to be exposed to corruption;
- (3) Has business interests that can cause conflict of interests (with the position held).

The other red flags that the brokerage house will consider include (in addition to the above and the red flags that they consider for other applicants):

- (1) The information that is provided by the PEP is inconsistent with other (publicly available) information, such as asset declarations and published official salaries;
- (2) Funds are repeatedly moved to and from countries to which the PEP does not seem to have ties;
- (3) A PEP uses multiple bank accounts for no apparent commercial or other reason;
- (4) The PEP is from a country that prohibits or restricts certain citizens from holding accounts or owning certain property in a foreign country.

Brokerage house will take a risk-based approach in determining whether to continue to consider a customer as a PEP who is no longer a PEP. The factors that they should consider include:

- (1) the level of (informal) influence that the individual could still exercise; and
- (2) Whether the individual's previous and current function are linked in any way (e.g., formally by appointment



of the PEPs successor, or informally by the fact that the PEP continues to deal with the same substantive matters).

### **18. Record-Keeping Procedures**

Brokerage house will ensure that all information obtained in the context of CDD is recorded. This includes both;

- a. recording the documents the brokerage house is provided with when verifying the identity of the customer or the beneficial owner, and
- b. Transcription into the brokerage house own IT systems of the relevant CDD information contained in such documents or obtained by other means.

Brokerage house will maintain, for at least five years after termination, all necessary records on transactions to be able to comply swiftly with information requests from the competent authorities. Such records should be sufficient to permit the reconstruction of individual transactions, so as to provide, if necessary, evidence for prosecution of criminal activity.

Where there has been a report of a suspicious activity or the brokerage house becomes aware of a continuing investigation or litigation into ML/TF relating to a customer or a transaction, records relating to the transaction or the customer will be retained until confirmation is received from the relevant authority in writing that the matter has been concluded.

Brokerage house will also keep records of identification data obtained through the customer due diligence process, account files and business correspondence that would be useful to an investigation for a period of five years after the business relationship has ended. This includes records pertaining to enquiries about complex, unusual large transactions, and unusual patterns of transactions. Identification data and transaction records should be made available to relevant competent authorities upon request.

Beneficial ownership information will be maintained for at least five years after the date on which the customer (a legal entity) is dissolved or otherwise ceases to exist, or five years after the date on which the customer ceases to be a customer of the brokerage house.

Records relating to verification of identity will generally comprise: a description of the nature of all the evidence received relating to the identity of the verification subject; and

- 1) the evidence itself or a copy of it or, if that is not readily available, information reasonably sufficient to obtain such a copy.

Records relating to transactions will generally comprise:

- 1) details of personal identity, including the names and addresses, of:
  - a) the customer; and
  - b) the beneficial owner of the account or product
- 2). details of securities and investments transacted including:
  - a. the nature of such securities/investments;
  - b. valuation(s) and price(s);

- c. memoranda of purchase and sale;
- d. source(s) and volume of funds and securities;
- e. destination(s) of funds and securities;
- f. memoranda of instruction(s) and authority(ies);
- g. book entries;
- h. custody of title documentation;
- i. the nature of the transaction;
- j. the date of the transaction;
- k. The form (e.g. cash, cheque) in which funds are offered and paid out.

### **19. Reporting of Suspicious Transactions / Currency Transaction Report**

A suspicious activity will often be one that is inconsistent with a customer's known, legitimate activities or with the normal business for that type of account. Where a transaction is inconsistent in amount, origin, destination, or type with a customer's known, legitimate business or personal activities, the transaction will be considered unusual, and Brokerage house will put the case "on enquiry". The brokerage house will also pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose.

Where the enquiries conducted by the brokerage house do not provide a satisfactory explanation of the transaction, it may be concluded that there are grounds for suspicion requiring disclosure and escalate matters to the CO.

Enquiries regarding complex, unusual large transactions, and unusual patterns of transactions, their background, and their result will be properly documented, and made available to the relevant authorities upon request. Activities which will require further enquiry may be recognizable as falling into one or more of the following categories. This list is not meant to be exhaustive, but includes:

- (1) any unusual financial activity of the customer in the context of the customer's own usual activities;
- (2) any unusual transaction in the course of some usual financial activity;
- (3) any unusually-linked transactions;
- (4) any unusual method of settlement;
- (5) any unwillingness to provide the information requested. Where cash transactions are being proposed by customers, and such requests are not in accordance with the customer's known reasonable practice, the brokerage house will need to approach such situations with caution and make further relevant enquiries. Brokerage house will set its own parameters at Rs. 25,000 for the identification and further investigation of cash transactions.

Where the brokerage house will be unable to satisfy that any cash transaction is reasonable it will be considered as suspicious. The brokerage house will also be obligated to file Currency Transaction Report ("CTR"), to FMU for a cash- based transaction involving payment, receipt, or transfer of Rs. 2 million and above.

If the brokerage house decides that a disclosure should be made, the law requires the brokerage house to report STR without delay to the FMU, in standard form as prescribed under AML Regulations 2015. The STR prescribed reporting form can be found on FMU website through the link <http://www.fmu.gov.pk/docs/AMLRegulations2015.pdf>.

The process for identifying, investigating and reporting suspicious transactions to the FMU is clearly specified in the brokerage house's KYC/CDD SOPs and communicated to all personnel through regular training.

The brokerage house will also be required to report total number of STRs filed to the Commission on a bi-annual basis within seven days of close of each half year. The CO will ensure prompt reporting in this regard.

Brokerage house will evolve a vigilance systems for the purpose of control and oversight, which requires maintenance of a register of all reports made to the FMU. Such registers will be maintained and updated by CO and will contain details of:

- (1) the date of the report;
- (2) the person who made the report;
- (3) the person(s) to whom the report was forwarded; and
- (4) reference by which supporting evidence is identifiable.

Brokerage house as a matter of policy will turn away business where an applicant or a customer is hesitant/fails to provide adequate documentation (including the identity of any beneficial owners or controllers), consideration will be given to filing an STR to the FMU.

For existing customers, once suspicion has been raised in relation to an account or relationship, in addition to reporting the suspicious activity, the brokerage house will ensure that appropriate action is taken to adequately mitigate the risk of the brokerage house being used for criminal activities. This will include a review of either the risk classification of the customer or account or of the entire relationship itself. In such cases an escalation will be made to the Chief Executive Officer to determine how to handle the relationship, taking into account any other relevant factors, such as cooperation with law enforcement agencies or the FMU.

## **20. Sanctions Compliance**

Sanctions are prohibitions and restrictions put in place with the aim of maintaining or restoring international peace and security. They generally target specific individuals or entities; or particular sectors, industries or interests. They may be aimed at certain people and targets in a particular country or territory, or some organization or element within them. There are also sanctions that target those persons and organizations involved in terrorism. The types of sanctions that may be imposed include targeted sanctions focused on named persons or entities, generally freezing assets and prohibiting making any assets available to them, directly or indirectly;

- (1) economic sanctions that prohibit doing business with, or making funds or economic resources available to, designated persons, businesses or other entities, directly or indirectly;
- (2) currency or exchange control;
- (3) arms embargoes, which would normally encompass all types of military and paramilitary equipment;
- (4) prohibiting investment, financial or technical assistance in general or for particular industry sectors or territories, including those related to military or paramilitary equipment or activity;
- (5) import and export embargoes involving specific types of goods (e.g. oil products), or their movement using aircraft or vessels, including facilitating such trade by means of financial or technical assistance, brokering, providing insurance etc.; and

(6) visa and travel bans.

(7) Targeted financial sanctions relating to the prevention, suppression and disruption of proliferation of Weapons of Mass Destruction (WMD) and its financing.

As required by Regulations, Brokerage house will screen all its customers against consolidated sanctions list available on UNSC's website and will decline business relationship with the individuals/entities and their associates that are either, sanctioned under UNSC Resolutions adopted by Pakistan or proscribed under the Anti-Terrorism Act, 1997.

The UNSC Resolution 1267 (1999), 1989 (2011), 2253 (2015) and other subsequent resolutions, which impose sanctions covering; asset freeze, travel ban and arms embargo, against individuals and entities associated to Al-Qaida, Taliban, and the Islamic State in Iraq (Da'esh) organizations. The regularly updated consolidated lists is available at the UN sanctions committee's website, at following link;

<https://www.un.org/sc/suborg/en/sanctions/un-sc-consolidated-list>

The UNSC Resolution 1373 (2001), 1998 (2011) on terrorism and financing of terrorism requiring member states to proscribe individual and entities, who commit or attempt to commit terrorist act, freeze without delay the funds and other financial assets or economic resources, and prohibit making any funds or financial or other related services available to such proscribed persons and entities.

c. the UNSC Resolution 1718(2006), 2231(2015) and its successor resolutions <sup>1</sup> on proliferation of WMD and its financing, and Targeted Financial Sanctions (TFS) on countries and specifically identified individual and entities associated with it. The resolution requires, inter-alia freezing without delay the funds or other assets of, any person or entity designated, or under the authority of UNSC. The regularly updated consolidated lists of person and entities designated under UNSCRR 1718(2006) and its successor resolutions (on the DPRK) and listed under UNSCR 2231 (2015) (on Iran) is available at the UN sanctions committee's website, at following link;

<https://www.un.org/sc/suborg/en/sanctions/1718/materials>

<https://www.un.org/sc/2231/list.shtml>

Government of Pakistan, Ministry of Foreign Affairs issues Statutory Regulatory Orders (SROs) under the United Nations (Security Council) Act, 1948 (Act No XIV of 1948) to give effect to the UNSC Resolutions and implement UNSC sanction measures in Pakistan. The said SROs are communicated to the brokerage house, from time to time, and have a binding legal effect under the Act No. XIV of 1948. Brokerage house will ensure compliance with the sanctions communicated through SROs. A list of such SROs issued by the Federal Government till date is also available at the following links:

UNSCR 1267

<http://www.mofa.gov.pk/contentsro1.php>

<http://www.mofa.gov.pk/contentsro2.php>

UNSCR 1718

<http://www.secdiv.gov.pk/page/sro-unscr-sanctions>

The Federal Government, Ministry of Interior issues Notifications of proscribed individuals /entities pursuant to the Anti-Terrorism Act, 1997, to implement sanction measures under UNSCR 1373(2001). The regularly updated consolidated list is available at the National Counter Terrorism Authority’s website, at following link;

<http://nacta.gov.pk/proscribed-organizations/>

The individuals and entities designated under the aforementioned resolutions are subject to sanctions including assets freeze, travel ban and ban on provision of any funds, financial assets or economic recourses. Such sanctions also extend to any funds, financial assets and economic resources indirectly owned by the designated individuals, and to individuals or entities acting on their behalf or on their direction.

Brokerage house will, taking note of the circumstances where customers and transactions are more vulnerable to be involved in TF and PF activities<sup>2</sup>, identify high-risk customers and transactions, and apply enhanced scrutiny. Brokerage house will conduct checks on the names of potential and new customers, as well as regular checks on the names of existing customers, beneficial owners, transactions, and other relevant parties against the names in the abovementioned lists, to determine if the business relations involves any sanctioned person/entity, or person associated with a sanctioned person/entity/country.

Brokerage house will also screen its entire customer database when the new names are listed through UNSC Resolution or the domestic NACTA list. Brokerage house will undertake reasonable efforts to collect additional information in order to identify, and avoid engaging in prohibited activities and, to enable follow-up actions.

Where there is a true match or suspicion, Brokerage house will take steps that are required to comply with the sanction’s obligations including immediately –

- (a) freeze without delay<sup>3</sup> the customer’s fund or block the transaction, if it is an existing customer;
- (b) reject the customer, if the transaction has not commenced;
- (c) lodge a STR with the FMU; and
- (d) notify the SECP and the MOFA.

Brokerage house will submit an STR when there is an attempted transaction by any of the listed persons.

<sup>1</sup> *The UNSC sanctions with respect to proliferation of WMD primarily encapsulates currently the Islamic Republic of Iran and the Democratic People’s Republic of Korea’s sanctions regime. The UNSC resolution on Iran is 2231 (2015). The UNSC resolution on Democratic People’s Republic of Korea are 1718 (2006), 1874 (2009), 2087 (2013), 2094 (2013), 2270 (2016), 2321 (2016), 2356 (2017), 2371 (2017), 2375 (2017) and 2397(2017).*

Brokerage house will ascertain potential matches with the UN Consolidated List to confirm whether they are true matches to eliminate any “false positives”. The reporting institution must make further enquiries from the customer or counter-party (where relevant) to assist in determining whether it is a true match. In case there is not 100% match but sufficient grounds of suspicion that customer/ funds belong to sanctioned entity/ individual, the brokerage house will consider raising an STR to FMU.

Notwithstanding the funds, properties or accounts are frozen, Brokerage house will continue receiving dividends, interests, or other benefits, but such benefits shall still remain frozen, so long as the individuals or entities continue to be listed.

Brokerage house will make their sanctions compliance program an integral part of their overall AML/CFT compliance program and accordingly should have policies, procedures, systems and controls in relation to sanctions compliance. Brokerage house will provide adequate sanctions related training to their staff. When conducting risk assessments, Brokerage house will take into account any sanctions that may apply (to customers or countries).

The obligations/ prohibitions regarding proscribed entities and persons mentioned in the above lists are applicable, on an ongoing basis, to proscribed/ designated entities and persons or to those who are known for their association with such entities and persons, whether under the proscribed/ designated name or with a different name. Therefore, to mitigate the risk of having a sanctioned individual / entity in the portfolio of customer Brokerage house has implemented an in-house solution to screen the updated customer portfolio against

<sup>2</sup> The circumstances that the brokerage house shall take note of where customers and transactions are more vulnerable to be involved in PF activities relating to both DPRK and Iran sanction regime are listed on Annexure 7 as PF Warning Signs/Red Alerts.

<sup>3</sup> According to FATF, without delay is defined to be ideally within a matter of hours of designation by the UNSC

Alerts are raised by the system on daily basis, which are reviewed and closed by CO on daily basis. Where there is a true match or suspicion, the CO raise the matter with the CEO with his proposal to comply with sanctions obligations including freeze without delay and without prior notice, the funds or other assets of designated persons and entities and reporting to the Commission.

Brokerage house will document and record all the actions that have been taken to comply with the sanctions regime, and the rationale for each such action.

Brokerage house will keep track of all the applicable sanctions, and where the sanction lists are updated, shall ensure that existing customers are not listed.

Brokerage house will also educate its customers that in case of wrongful or inadvertent freezing, they may apply in writing for de-listing to Federal Government through relevant Ministry or to the UN's Ombudsman, as the case maybe.

## **21. Internal Controls (Audit Function, outsourcing, employee screening and training)**

Brokerage house will put in place systems and controls that are comprehensive and proportionate to the nature, scale and complexity of its activities and the ML/TF risks they identified. The brokerage house will establish and maintain internal controls in relation to:

- (1) an independent internal audit function to test the AML/CFT systems, policies and procedures;
- (2) outsourcing arrangements employee screening procedures to ensure high standards when hiring employees;  
and
- (3) an appropriate employee training program.

### **a) Internal Audit Function**

Brokerage house will, on a regular basis, conduct an AML/CFT audit to independently evaluate the effectiveness of compliance with AML/CFT policies and procedures. The frequency of the audit will be determined through annual risk assessment exercise and will commensurate with the brokerage house nature, size, complexity, and

risks identified during the risk assessments. The scope of AML/CFT audits will cover assessment of the AML/CFT systems which include:

- (1) testing the overall integrity and effectiveness of the AML/CFT systems and controls;
- (2) assessing the adequacy of internal policies and procedures in addressing identified risks, including;
  - (a) CDD measures;
  - (b) Record keeping and retention;
  - (c) Third party reliance; and
  - (d) Transaction monitoring;
- (3) assessing compliance with the relevant laws and regulations;
- (4) testing transactions in all areas of the brokerage house, with emphasis on high-risk areas, products and services;
- (5) assessing employees' knowledge of the laws, regulations, guidance, and policies & procedures and their effectiveness in implementing policies and procedures;
- (6) assessing the adequacy, accuracy and completeness of training programs;
- (7) assessing the effectiveness of compliance oversight and quality control including parameters for automatic alerts (if any), and
- (8) assessing the adequacy of the brokerage house's process of identifying suspicious activity including Screening sanctions lists.

**b) Outsourcing**

Brokerage house will maintain policies and procedures in relation to outsourcing where it intends to outsource some of its functions. The brokerage house will conduct the due diligence on the proposed service provider to whom it intends to outsource as appropriate and also ensure that the outsourced service provider ("OSP") is fit and proper to perform the activity that is being outsourced.

Where the brokerage house decides to enter into an outsourcing arrangement, the brokerage house will ensure that the outsourcing agreement clearly sets out the obligations of both parties. The brokerage house while entering into an outsourcing arrangement will develop a contingency plan and a strategy to exit the arrangement in the event that the OSP fails to perform the outsourced activity as agreed.

The OSP will report regularly to the brokerage house within the timeframes as agreed upon with the brokerage house. The brokerage house will have access to all the information or documents relevant to the outsourced activity maintained by the OSP. The brokerage house as a matter of policy will not enter into outsourcing arrangements where access to data without delay is likely to be impeded by confidentiality, secrecy, privacy, or data protection restrictions.

Further, Brokerage house will ensure that the outsourcing agreement require OSPs to file a STR with the FMU in case of suspicions arising in the course of performing the outsourced activity.

**c) Employee Screening**

Brokerage house's policy and procedures with regards to screening prospective and existing employees to ensure abidance with high ethical and professional standards are defined in these sections. The extent of employee screening will be proportionate to the particular risks associated with the individual positions.

Employee screening will be conducted at the time of recruitment and periodically thereafter, i.e., at least annually and where a suspicion has arisen as to the conduct of the employee.

The brokerage house will ensure that their employees are competent and proper for the discharge of the responsibilities allocated to them. While determining whether an employee is fit and proper, the brokerage house will:

- (1) Verify the references provided by the prospective employee at the time of recruitment
- (2) Verify the employee's employment history, professional membership and qualifications from his resume and original copies of education documents.
- (3) Verify details of any regulatory actions or actions taken by a professional body
- (4) Verify details of any criminal convictions; if possible and
- (5) Verify whether the employee has any connections with the sanctioned countries or parties.

#### **d) Employee Training**

The brokerage house will ensure that all staff, receive training on ML/TF prevention on a regular basis, ensure all staff fully understands the procedures and their importance, and ensure that they fully understand that they will be committing criminal offences if they contravene the provisions of the legislation.

Training to staff will be provided at least annually, or more frequently where there are changes to the applicable legal or regulatory requirements or where there are significant changes to the brokerage house's business operations or customer base. Brokerage house will provide their staff training in the recognition and treatment of suspicious activities. Training will also be provided on the results of the brokerage house's risk assessments. Additionally, this training will be structured to ensure compliance with all of the requirements of the applicable legislations pertaining to AML/CFT.

Training material will be designed to ensure staff is aware on the AML/CFT legislation and regulatory requirements, systems and policies. Additionally, focus will be given on the consequences should they fail to report information in accordance with internal procedures and legislation. One of the key focuses of these training programs will be active coordination with customers and CO whereby all staff will be encouraged to provide a prompt and adequate report of any suspicious activities to the CO for inward reporting to FMU.

To make staff more accountable towards AML/CFT requirements, Brokerage house will obtain an undertaking from its staff members (both new and existing) confirming that they have attended the training on AML/CFT matters, read the brokerage house's AML/CFT manuals, policies and procedures, and understand the AML/CFT obligations under the relevant legislation.

Brokerage house is cognizant of the fact that all information regarding a potential or existing customer is not available on systems or on public domain immediately and human interaction plays an important role in identifying such information. Staff members who deal with the public such as traders are the first point of contact with potential money launderers, and their efforts are vital to an organization's effectiveness in combating ML/TF. Staff responsible for opening new accounts or dealing with new customers should be aware of the need to verify the customer's identity, for new and existing customers. Training will be given on the factors which may give rise to suspicions about a customer's activities, and actions to be taken when a transaction is considered to be suspicious.



Staff involved in the processing of transactions will receive relevant training in the verification procedures, and in the recognition of abnormal settlement, payment or delivery instructions. The training curriculum will contain information on types of suspicious activities which may need reporting to the relevant authorities regardless of whether the transaction was completed. Staff will also be made aware of the correct procedure(s) to be followed in such circumstances.

Brokerage house expects all staff to be vigilant in circumstances where a known, existing customer opens a new and different type of account, or makes a new investment e.g. a customer with a personal account opening a business account. In such cases whilst the brokerage house may have previously obtained satisfactory identification evidence for the customer, the brokerage house will take steps to learn as much as possible about the customer's new activities.

Although Directors and Senior Managers may not be involved in the handling of ML/TF transactions, it is important that they understand the statutory duties placed upon them, their staff and the brokerage house itself given that these individuals are involved in approving AML/CFT policies and procedures. Hence the supervisors, managers and senior management (including the Board) will receive a higher level of training covering all aspects of AML/CFT procedures, including the offences and penalties arising from the relevant primary legislation for non-reporting or for assisting money launderers, and the requirements for verification of identity and retention of records.

The CO will himself receive in-depth training on all aspects of the primary legislation, the Regulations, regulatory guidance and relevant internal policies. It will include appropriate initial and ongoing training on the investigation, determination and reporting of suspicious activities, on the feedback arrangements and on new trends of criminal activity.

Preparing AML/CFT Risk Assessment

“Establish KYC-CDD and customer risk profiling prior to Risk Assessment process”

**Step 1 – Identify Customer Risk**

| <i>Customer Risk Type</i>    |                            |  |  |   |   |
|------------------------------|----------------------------|--|--|---|---|
| <i>Customer Type</i>         | <i>Number of Customers</i> | <i>Total Amount on Deposit/Value of Trade (Buy and Sale)</i> | <i>Internal Risk Rating by the brokerage house</i> |   |   |
|                              |                            |  | <i>Total Number Classified as Low Risk</i>         | <i>Total Number Classified as Medium Risk</i> | <i>Total Number Classified as High Risk</i> |
| <b>1. Natural Persons</b>    |                            |  |  |   |   |
| <i>Resident</i>              |                            |  |  |   |   |
| <i>Non-Resident</i>          |                            |  |  |   |   |
| <b>Total Natural Persons</b> | <b>0</b>                   | <b>0.00</b>  | <b>0</b>   | <b>0</b>                                      | <b>0</b>                                    |
| <b>2. Legal Persons</b>      |                            |  |  |   |   |
| <i>Resident</i>              |                            |  |  |   |   |
| <i>Non-Resident</i>          |                            |  |  |   |   |
| <b>Total Legal Persons</b>   | <b>0</b>                   | <b>0.00</b>  | <b>0</b>   | <b>0</b>                                      | <b>0</b>                                    |
| <b>Total Exposure</b>        | <b>0</b>                   | <b>0</b>   | <b>0</b>   | <b>0</b>                                      | <b>0</b>                                    |

**Step 2- Politically Exposed Persons and High Net worth Individuals**

| <i>Politically Exposed Persons ('PEP's), and or, High Net Worth Individuals</i> |   |                    |                                   |                |
|---|---|--------------------|-----------------------------------|----------------|
| <i>Customer Risk</i>  | <i>Politically Exposed Persons and or Related Companies</i> |                    | <i>High Net Worth Individuals</i> |                |
| <i>Type</i>   | <i>Total Number</i>   |                    | <i>Total Number</i>               |                |
|   | <i>Domestic PEP</i>   | <i>Foreign PEP</i> | <i>Domestic</i>                   | <i>Foreign</i> |
| <i>Product 1</i>  |   |                    |                                   |                |
| <i>Product 2</i>  |   |                    |                                   |                |
| <i>Product 3</i>  |   |                    |                                   |                |
| <i>Other (specify)</i>  |   |                    |                                   |                |
| <b>Total</b>  | <b>0.00</b>   | <b>0.00</b>        | <b>0.00</b>                       | <b>0.00</b>    |



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Step 3 - Identify Risk by Product, Services and Transactions

| Products and Services |                                     |              |                                   |              |  |                                     |              |  |              |  |
|-----------------------|-------------------------------------|--------------|-----------------------------------|--------------|--|-------------------------------------|--------------|--|--------------|--|
| Business Risk         | Domestic                            |              |                                   |              |  | Foreign                             |              |  |              |  |
| Type                  | Total Deposits/Securities Purchased |              | Total Withdrawals/Securities Sold |              | Total Exposure/Value of Customers Assets in hand | Total Deposits/Securities Purchased |              | Total Withdrawals/Securities Sold/Claims & Maturities Paid |              | Total Exposure/Value of Customers Assets in hand |
|                       | Number                              | Value in Rs. | Number                            | Value in Rs. | (on cutoff date)                                 | Number                              | Value in Rs. | Number   | Value in Rs. | (on cutoff date)                                 |
| Products and Services |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Product 1             |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Product 2             |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Product 3             |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Product 4             |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Other (specify)       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Other (specify)       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Transactions          |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Customer Type 1       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Customer Type 2       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Customer Type 3       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Customer Type 4       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Other (specify)       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| Other (specify)       |                                     |              |                                   |              |  |                                     |              |  |              |  |
| <b>Total</b>          | <b>0.00</b>                         |              | <b>0.00</b>                       |              | <b>0.00</b>                                      | <b>0.00</b>                         |              |  | <b>0.00</b>  | <b>0.00</b>                                      |



Step 4- Identify Wire Transfer Activity

| Type                   | Number of Incoming Transfers over the Period | Total Value | Number of Outgoing Transfers over the Period | Total Value |
|------------------------|--|-------------|--|-------------|
| Wire Transfers (SWIFT) |  |             |  |             |
| Domestic Payments      |  |             |  |             |
| <b>Total</b>           | <b>0.00</b>                                  | <b>0.00</b> | <b>0.00</b>                                  | <b>0.00</b> |

Step 5 – Identify Customer Type by Geographic Location

| Types of Customers  | Number of Customers | Total Deposits/Value of Trade |
|---|---------------------|-------------------------------|
| <b>Natural Persons</b>  |                     |                               |
| Of which, non-resident customers from 'High risk Jurisdictions' as identified by the FATF                   |                     |                               |
| Of which, non-resident customers from 'High risk Jurisdictions' as identified by the financial institutions |                     |                               |
| <b>Legal Persons</b>  |                     |                               |
| Of which, non-resident customers from 'High risk Jurisdictions' as identified by the FATF                   |                     |                               |
| Of which, non-resident customers from 'High risk Jurisdictions' as identified by the financial institutions |                     |                               |
| <b>Total</b>  | <b>0.00</b>         | <b>0.00</b>                   |

Step 6 - Develop Risk Likelihood Table

| Customer Risk Likelihood Table |          |                              |           |
|--------------------------------|----------|------------------------------|-----------|
| Type of Customer               | Customer | Transaction                  | Geography |
|                                |          | Rating: (High/ Moderate/Low) |           |
|                                |          |                              |           |
|                                |          |                              |           |
|                                |          |                              |           |
|                                |          |                              |           |
|                                |          |                              |           |



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| <b>Product Risk Likelihood Table</b> |                 |                                     |                  |
|--------------------------------------|-----------------|-------------------------------------|------------------|
| <b>Product Type</b>                  | <b>Customer</b> | <b>Transaction</b>                  | <b>Geography</b> |
|                                      |                 | <i>Rating: (High/ Moderate/Low)</i> |                  |
|                                      |                 |                                     |                  |
|                                      |                 |                                     |                  |
|                                      |                 |                                     |                  |
|                                      |                 |                                     |                  |

| <b>Delivery Channels Risk Likelihood Table</b> |                 |                                   |                  |
|--|-----------------|-----------------------------------|------------------|
| <b>Delivery Channels</b>                       | <b>Customer</b> | <b>Transactions</b>               | <b>Geography</b> |
|  |                 | <i>Rating (High/Moderate/Low)</i> |                  |
|  |                 |                                   |                  |
|  |                 |                                   |                  |
|  |                 |                                   |                  |
|  |                 |                                   |                  |

| <b>Overall Entity Level AML/CFT Risk Assessment</b> |  |
|---|--|
| <i>Rating (High/Moderate/Low)</i>                   |  |
| <b>Customer Type</b>                                |  |
| <b>Product Type</b>                                 |  |
| <b>Delivery Channels</b>                            |  |
| <b>Geography</b>                                    |  |
| <b>Overall AML/CFT Risk Rating</b>                  |  |

**Annex 2**

**AML/CFT Compliance Assessment Checklist**

| <b>SECP AML/CFT Compliance Assessment Checklist</b>  |  |
|--|--|
| <i>Name of the Financial Institution</i>   |  |
| <i>Checklist completed by (Name)</i>   |  |
| <i>(Designation)</i>   |  |
| <i>Date</i>  |  |
| <p>The AML / CFT Self-Assessment Checklist has been designed to provide a structured and comprehensive framework for RFIs and their associated entities to assess compliance with key AML / CFT requirements. RFIs are advised to use this as part of their regular review to monitor their AML/CFT compliance. The frequency and extent of such review should be commensurate with the risks of ML/TF and the size of the firm's business.<br/> <b>Note: This AML / CFT Self-Assessment Checklist is neither intended to, nor should be construed as, an exhaustive list of all AML/CFT requirements.</b></p> |  |

| Sr No.                     | Question   | Yes/No (N/A) | If No, provide explanation and plan of action for remediation. |
|----------------------------|--|--------------|--|
| <b>(A) AML/CFT Systems</b> |  |              |  |
| <b>1</b>                   | The brokerage house is required to assess its ML / TF risk and then implement appropriate internal policies, procedures and controls to mitigate risks of ML/TF. |              |  |
|                            | Have you taken into account the following risk factors when assessing your own ML / TF risk?   |              |  |
|                            | (a) Product / service risk   |              |  |
|                            | (b) Delivery / distribution channel risk   |              |  |
|                            | (c) Customer risk  |              |  |
|                            | (d) Country risk   |              |  |

|          |   |  |  |
|----------|---|--|--|
| <b>2</b> | The brokerage house is required to have effective controls to ensure proper implementation of AML/CFT policies and procedures.  |  |  |
|          | Does your AML/CFT systems cover the following controls?   |  |  |
|          | (a) Board of Director and Senior management oversight   |  |  |
|          | (ii) Have you appointed an appropriate staff as a Compliance Officer ('CO')?  |  |  |
|          | (iii) Do you ensure that CO is:   |  |  |
|          | 1. the focal point for the oversight of all activities relating to the prevention and detection of ML/TF  |  |  |
|          | 2. independent of all operational and business functions as far as practicable within any constraint of size of your institution  |  |  |
|          | 3. of a sufficient level of seniority and authority within your institution   |  |  |
|          | 4. provided with regular contact with and direct access to senior management to ensure that senior management is able to satisfy itself that the statutory obligations are being met and the measures against the risks of ML/TF is sufficient and robust |  |  |
|          | 5. fully conversant in the statutory and regulatory requirements and ML/TF risks arising from your business   |  |  |
|          | 6. capable of accessing on a timely basis all required available information to undertake its role  |  |  |
|          | 7. equipped with sufficient resources, including staff  |  |  |
|          | 8. overseeing your firm's compliance with the relevant AML requirements in Pakistan and overseas branches and subsidiaries  |  |  |
|          | (b) Audit function  |  |  |
|          | (i) Have you established an independent audit function?   |  |  |
|          | (ii) If yes, does the function regularly review the AML/CFT systems to ensure effectiveness?  |  |  |
|          | (iii) If appropriate, have you sought review assistance from external sources regarding your AML/CFT systems?   |  |  |
|          | (c) Staff screening   |  |  |
|          | (i) Do you establish, maintain and operate appropriate procedures in order to be satisfied of the integrity of any new employees?   |  |  |
| <b>3</b> | The brokerage house with overseas branches or subsidiary undertakings should put in place a group AML/CFT policy to ensure an overall compliance with the CDD and record-keeping requirements.  |  |  |
|          | Does your firm have overseas branches and subsidiary undertakings?  |  |  |
|          | Do you have a group AML/CFT policy to ensure that all overseas branches and subsidiary undertakings have procedures in place to comply with the CDD and record-keeping requirements similar to those set under the AML Regulations?                       |  |  |



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|  |   |  |  |
|--|---|--|--|
|  | If yes, is such policy well communicated within your group?   |  |  |
|  | In the case where your overseas branches or subsidiary undertakings are unable to comply with the above mentioned policy due to local laws' restrictions, have you done the following?                                    |  |  |
|  | (a) inform the SECP of such failure   |  |  |
|  | (b) take additional measures to effectively mitigate ML/TF risks faced by them  |  |  |
| <b>(B) Risk-Based Approach ('RBA')</b> |   |  |  |
| <b>4</b>                               | The brokerage house is required to determine the extent of CDD measures and ongoing monitoring, using an RBA depending upon the background of the customer and the product, transaction or service used by that customer. |  |  |
|  | Does your RBA identify and categorize ML/TF risks at the customer level and establish reasonable measures based on risks identified?  |  |  |
|  | Do you consider the following risk factors when determining the ML/TF risk rating of customers?   |  |  |
|  | (a) Country risk - customers with residence in or connection with the below high-risk jurisdictions   |  |  |
|  | (i) countries identified by the FATF as jurisdictions with strategic AML/CFT deficiencies   |  |  |
|  | (ii) countries subject to sanctions, embargoes or similar measures issued by international authorities  |  |  |
|  | (iii) countries which are vulnerable to corruption  |  |  |
|  | (iv) countries that are believed to have strong links to terrorist activities   |  |  |
|  | (b) Customer risk - customers with the below nature or behavior might present a higher ML/TF risk   |  |  |
|  | (i) the public profile of the customer indicating involvement with, or connection to, politically exposed persons ('PEPs')  |  |  |
|  | (ii) complexity of the relationship, including use of corporate structures, trusts and the use of nominee and bearer shares where there is no legitimate commercial rationale   |  |  |
|  | (iii) request to use numbered accounts or undue levels of secrecy with a transaction  |  |  |
|  | (iv) involvement in cash-intensive businesses   |  |  |
|  | (v) nature, scope and location of business activities generating the funds/assets, having regard to sensitive or high-risk activities   |  |  |
|  | (vi) the origin of wealth (for high risk customers and PEPs) or ownership cannot be easily verified   |  |  |
|  | (c) Product/service risk - product/service with the below factors might present a higher risk   |  |  |
|  | (i) services that inherently have provided more anonymity   |  |  |
|  | (ii) ability to pool underlying customers/funds   |  |  |
|  | (d) Distribution/delivery channels  |  |  |
|  | (i) a non-face-to-face account opening approach is used   |  |  |
|  | (ii) Business sold through third party agencies or intermediaries   |  |  |



|          |   |  |  |
|----------|---|--|--|
|          | Do you adjust your risk assessment of customers from time to time or based upon information received from a competent authority, and review the extent of the CDD and ongoing monitoring to be applied?   |  |  |
|          | Do you maintain all records and relevant documents of the above risk assessment?  |  |  |
|          | If yes, are they able to demonstrate to the SECP the following?   |  |  |
|          | (a) how you assess the customer   |  |  |
|          | (b) the extent of CDD and ongoing monitoring is appropriate based on that customer's ML/TF risk   |  |  |
|          |   |  |  |
|          | <b>(C) - Customer Due Diligence ('CDD')</b>   |  |  |
| <b>5</b> | The brokerage house is required to carry out CDD, which is a vital tool for recognizing whether there are grounds for knowledge or suspicion of ML/TF.  |  |  |
|          | Do you conduct the following CDD measures?  |  |  |
|          | (a) identify the customer and verify the customer's identity using reliable, independent source documents, data or information  |  |  |
|          | (b) where there is a beneficial owner in relation to the customer, identify and take reasonable measures to verify the beneficial owner's identity, including in the case of a legal person or trust, measures to enable you to understand the ownership and control structure of the legal person or trust |  |  |
|          | (c) obtain information on the purpose and intended nature of the business relationship established with you unless the purpose and intended nature are obvious  |  |  |
|          | (d) if a person purports to act on behalf of the customer:  |  |  |
|          | (i) identify the person and take reasonable measures to verify the person's identity using reliable and independent source documents, data or information   |  |  |
|          | (ii) verify the person's authority to act on behalf of the customer (e.g. written authority, board resolution)  |  |  |
|          |   |  |  |
|          | Do you apply CDD requirements in the following conditions?  |  |  |
|          | (a) at the outset of a business relationship  |  |  |
|          | (b) when you suspect that a customer or a customer's account is involved in ML/TF   |  |  |
|          | (c) when you doubt the veracity or adequacy of any information previously obtained for the purpose of identifying the customer or for the purpose of verifying the customer's identity  |  |  |
|          |   |  |  |
| <b>6</b> | The brokerage house is required to identify and take reasonable measures to verify the identity of a beneficial owner.  |  |  |
|          |   |  |  |
|          | When an individual is identified as a beneficial owner, do you obtain the following identification information?   |  |  |
|          | (a) Full name   |  |  |
|          | (b) Date of birth   |  |  |
|          | (c) Nationality   |  |  |
|          | (d) Identity document type and number   |  |  |
|          | Do you verify the identity of beneficial owner(s) with reasonable measures, based on its assessment of the ML/TF risks, so that you know who the beneficial owner(s) is?  |  |  |



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| <b>7</b>  | The brokerage house is required to identify and take reasonable measures to verify the identity of a person who purports to act on behalf of the customer and is authorized to give instructions for the movement of funds or Assets.  |  |  |
|           | When a person purports to act on behalf of a customer and is authorized to give instructions for the movement of funds or assets, do you obtain the identification information and take reasonable measures to verify the information obtained?  |  |  |
|           | Do you obtain the written authorization to verify that the individual purporting to represent the customer is authorized to do so?   |  |  |
|           | Do you use a streamlined approach on occasions where difficulties have been encountered in identifying and verifying signatories of individuals being represented to comply with the CDD requirements?   |  |  |
|           | If yes, do you perform the following:  |  |  |
|           | (a) adopt an RBA to assess whether the customer is a low risk customer and that the streamlined approach is only applicable to these low risk customers  |  |  |
|           | (b) obtain a signatory list, recording the names of the account signatories, whose identities and authority to act have been confirmed by a department or person within that customer which is independent to the persons whose identities are being verified  |  |  |
| <b>8</b>  | The brokerage house is required to take appropriate steps to verify the genuineness of identification provided if suspicions are raised.   |  |  |
|           | In case of suspicions raised in relation to any document in performing CDD, have you taken practical and Proportionate steps to establish whether the document offered is genuine, or has been reported as lost or stolen? (e.g. search publicly available information, approach relevant authorities)                             |  |  |
|           | Have you rejected any documents provided during CDD and considered making a report to the authorities (e.g. FMU, police) where suspicion on the genuineness of the information cannot be eliminated?   |  |  |
| <b>9</b>  | The brokerage house is required to understand the purpose and intended nature of the business relationship established.  |  |  |
|           | Unless the purpose and intended nature are obvious, have you obtained satisfactory information from all new customers (including non-residents) as to the intended purpose and reason for opening the account or Establishing the business relationship, and record the information on the relevant account opening documentation? |  |  |
| <b>10</b> | The brokerage house is required to complete the CDD before establishing business relationships.  |  |  |



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|           | Do you always complete the CDD process before establishing business relationships? If you always complete CDD process before establishing a business relationship  |  |  |
|           | If you are unable to complete the CDD process, do you ensure that the relevant business relationships must not be established and assess whether this failure provides grounds for knowledge or suspicion of ML/TF to submit a report to the FMU as appropriate? |  |  |
|           | If the CDD process is not completed before establishing a business relationship, would these be on an exception basis only and with consideration of the following:  |  |  |
|           | (a) any risk of ML/TF arising from the delayed verification of the customer's or beneficial owner's identity can be effectively managed.   |  |  |
|           | (b) it is necessary not to interrupt the normal course of business with the customer (e.g. securities transactions).   |  |  |
|           | (c) verification is completed as soon as reasonably practicable.   |  |  |
|           | (d) the business relationship will be terminated if verification cannot be completed as soon as reasonably practicable.  |  |  |
|           | Have you adopted appropriate risk management policies and procedures when a customer is permitted to enter into a business relationship prior to verification?   |  |  |
|           | If yes, do they include the following?   |  |  |
|           | (a) establishing timeframes for the completion of the identity verification measures and that it is carried out as soon as reasonably practicable  |  |  |
|           | (b) placing appropriate limits on the number of transactions and type of transactions that can be undertaken pending verification  |  |  |
|           | (c) ensuring that funds are not paid out to any third party  |  |  |
|           | (d) other relevant policies and procedures   |  |  |
|           | When terminating a business relationship where funds or other assets have been received, have you returned the funds or assets to the source (where possible) from which they were received?   |  |  |
| <b>11</b> | The brokerage house is required to keep the customer information up-to-date and relevant.  |  |  |
|           | Do you undertake reviews of existing records of customers to ensure that the information obtained for the purposes of complying with the AML requirements are up-to-date and relevant when one of the following trigger events happen?                           |  |  |
|           | (a) when a significant transaction is to take place  |  |  |
|           | (b) when a material change occurs in the way the customer's account is operated  |  |  |
|           | (c) when your customer documentation standards change substantially  |  |  |
|           | (d) when you are aware that you lack sufficient information about the customer concerned   |  |  |
|           | (e) if there are other trigger events that you consider and defined in your policies and procedures, please elaborate further in the text box  |  |  |



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|           | Are all high-risk customers subject to a review of their profile?   |  |  |
| <b>12</b> | The brokerage house is required to identify and verify the true and full identity of each natural person by using reliable and independent sources of information.  |  |  |
|           | Do you have customers which are natural persons?  |  |  |
|           | Do you collect the identification information for customers:  |  |  |
|           | (i) Residents   |  |  |
|           | (ii) Non-residents  |  |  |
|           | (iii) Non-residents who are not physically present  |  |  |
|           | Do you document the information?  |  |  |
|           | If yes, please provide a list of acceptable documents that you obtain for verifying residential address (e.g. utility bills or bank statements). For the avoidance of doubt, please note according to the Guideline on AML and CFT that certain types of address verification should not be considered sufficient, e.g. a post office box address, for persons residing in Pakistan or corporate customers registered and/or operating in Pakistan. |  |  |
|           | In cases where customers may not be able to produce verified evidence of residential address have you adopted alternative methods and applied these on a risk sensitive basis?  |  |  |
|           | Do you require additional identity information to be provided or verify additional aspects of identity if the customer, or the product or service, is assessed to present a higher ML/TF risk?  |  |  |
| <b>13</b> | The brokerage house is required to identify and verify the true and full identity of each legal person and trust and its beneficial owners by using reliable and independent sources of information.  |  |  |
|           | Do you have measures to look behind each legal person or trust to identify those who have ultimate control or ultimate beneficial ownership over the business and the customer's assets?  |  |  |
|           | Do you fully understand the customer's legal form, structure and ownership, and obtain information on the nature of its business, and reasons for seeking the product or service when the reasons are not obvious?  |  |  |
| <b>14</b> | Corporation   |  |  |
|           | Do you have customers which are corporations?   |  |  |
|           | Do you obtain the following information and verification documents in relation to a customer which is a corporation?  |  |  |
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|           | For companies with multiple layers in their ownership structures, do you have an understanding of the ownership and control structure of the company and fully identify the intermediate layers of the company?  |  |  |
|           | Do you take further measures, when the ownership structure of the company is dispersed/complex/multi-layered without an obvious commercial purpose, to verify the identity of the ultimate beneficial owners?  |  |  |
| <b>15</b> | Partnerships and unincorporated bodies   |  |  |
|           | Do you have customers which are partnerships or unincorporated bodies?   |  |  |
|           | Do you take reasonable measures to verify the identity of the beneficial owners of the partnerships or unincorporated bodies?  |  |  |
|           | Do you obtain the information and verification documents in relation to the partnership or unincorporated body?  |  |  |
|           | Do you have customers which are in the form of trusts?   |  |  |
|           | Do you obtain the information and verification documents to verify the existence, legal form and parties to a trust?   |  |  |
|           | Have you taken particular care in relation to trusts created in jurisdictions where there is no or weak money laundering legislation?  |  |  |
| <b>16</b> | The brokerage house may conduct simplified 'Know Your Customer' due diligence ('SDD') process instead of full CDD measures given reasonable grounds to support it. Simplified due diligence is the lowest level of due diligence that can be completed on a customer. This is appropriate where there is little opportunity or risk of your services or customer becoming involved in money laundering or terrorist financing. SDD is a condition where the timing of the actual verification of a particular customer is deferred until such time the entire CDD process is completed, rather than reducing what needs to be obtained, under a risk-based approach. |  |  |
|           | Have you conducted SDD instead of full CDD measures for your customers?  |  |  |
|           | Do you refrain from applying SDD when you suspect that the customer, the customer's account or the transaction is involved in ML/TF, or when you doubt the veracity or adequacy of any information previously obtained for the purpose of identifying or verifying the customer?   |  |  |
|           | Before the application of SDD on any of the customer categories, have you performed checking on whether they meet the criteria of the respective category?   |  |  |
| <b>17</b> | The brokerage house is required, in any situation that by its nature presents a higher risk of ML/TF, to take additional measures to mitigate the risk of ML/TF.   |  |  |

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|           | Do you take additional measures or enhanced due diligence ('EDD') when the customer presents a higher risk of ML/TF?   |  |  |
|           | If yes, do they include the following?   |  |  |
|           | (a) obtaining additional information on the customer and updating more regularly the customer profile including the identification data  |  |  |
|           | (b) obtaining additional information on the intended nature of the business relationship, the source of wealth and source of funds   |  |  |
|           | (c) obtaining the approval of senior management to commence or continue the relationship   |  |  |
|           | (d) conducting enhanced monitoring of the business relationship, by increasing the number and timing of the controls applied and selecting patterns of transactions that need further examination.   |  |  |
| <b>18</b> | The brokerage house is required to apply equally effective customer identification procedures and ongoing monitoring standards for customers not physically present for identification purposes as for those where the customer is available for interview.<br>Do you accept customers that are not physically present for identification purposes to open an account?   |  |  |
|           | If yes, have you taken additional measures to compensate for any risk associated with customers not physically present (i.e. face to face) for identification purposes?  |  |  |
|           | If yes, do you document such information?  |  |  |
| <b>19</b> | The brokerage house is required to determine whether a potential customer, a customer or the beneficial owner is a politically exposed person ('PEP') and to adopt EDD on PEPs.<br>Do you define what a PEP (foreign and domestic) is in your AML/CFT policies and procedures?<br>Have you established and maintained effective procedures for determining whether a customer or a beneficial owner of a customer is PEP (foreign and domestic)?<br>If yes, is screening and searches performed to determine if a customer or a beneficial owner of a customer is a PEP? (e.g. through commercially available databases, publicly available sources and internet / media searches etc) |  |  |
| <b>20</b> | Foreign PEPs<br>Do you conduct EDD at the outset of the business relationship and ongoing monitoring when a foreign PEP is identified or suspected?<br>Have you applied the following EDD measures when you know that a particular customer or beneficial owner is a foreign PEP (for both existing and new business relationships)?<br>(a) obtaining approval from your senior management   |  |  |

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|           | (b) taking reasonable measures to establish the customer's or the beneficial owner's source of wealth and the source of the funds  |  |  |
|           | (c) applying enhanced monitoring to the relationship in accordance with the assessed risks   |  |  |
| <b>21</b> | <b>Domestic PEPs</b>   |  |  |
|           | Have you performed a risk assessment for an individual known to be a domestic PEP to determine whether the individual poses a higher risk of ML/TF?  |  |  |
|           | If yes and the domestic PEP poses a higher ML/TF risk, have you applied EDD and monitoring specified in question C.40 above?   |  |  |
|           | If yes, have you retained a copy of the assessment for related authorities, other authorities and auditors and reviewed the assessment whenever concerns as to the activities of the individual arise?   |  |  |
|           | For foreign and domestic PEPs assessed to present a higher risk, are they subject to a minimum of an annual review and ensure the CDD information remains up-to-date and relevant?   |  |  |
| <b>22</b> | <b>The brokerage house has the ultimate responsibility for ensuring CDD requirements are met, even intermediaries were used to perform any part of the CDD measures.</b>   |  |  |
|           | Have you used any intermediaries to perform any part of your CDD measures?   |  |  |
|           | When intermediaries (not including those in contractual arrangements with the RFI to carry out its CDD function or business relationships, accounts or transactions between RFI for their clients) are relied on to perform any part of the CDD measures, do you obtain written confirmation from the intermediaries that: |  |  |
|           | (a) they agree to perform the role   |  |  |
|           | (b) they will provide without delay a copy of any document or record obtained in the course of carrying out the CDD measures on behalf of you upon request.  |  |  |
|           | When you use an intermediary, are you satisfied that it has adequate procedures in place to prevent ML/TF?   |  |  |
|           | When you use overseas intermediaries, are you satisfied that it:   |  |  |
|           | (a) is required under the law of the jurisdiction concerned to be registered or licensed or is regulated under the law of that jurisdiction  |  |  |
|           | (b) has measures in place to ensure compliance with requirements   |  |  |
|           | (c) is supervised for compliance with those requirements by an authority in that jurisdiction that performs functions similar to those of any of the relevant authorities in PK  |  |  |
|           | In order to ensure the compliance with the requirements set out above for both domestic and overseas intermediaries, do you take the following measures?   |  |  |
|           | (a) review the intermediary's AML/CFT policies and procedures  |  |  |

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|           | (b) make enquiries concerning the intermediary's stature and regulatory track record and the extent to which any group's AML/CFT standards are applied and audited  |  |  |
|           | Do you immediately (with no delay) obtain from intermediaries the data or information that the intermediaries obtained in the course of carrying out the CDD measures?  |  |  |
|           | Do you conduct sample tests from time to time to ensure CDD information and documentation is produced by the intermediary upon demand and without undue delay?  |  |  |
|           | Have you taken reasonable steps to review intermediaries' ability to perform its CDD whenever you have doubts as to the reliability of intermediaries?  |  |  |
| <b>23</b> | The brokerage house is required to perform CDD measures on pre-existing customers when trigger events occur.  |  |  |
|           | Have you performed CDD measures on your pre-existing customers when one of the following trigger events happens?  |  |  |
|           | (a) a transaction takes place with regard to the customer, which is, by virtue of the amount or nature of the transaction, unusual or suspicious; or is inconsistent with your knowledge of the customer or the customer's business or risk profile, or with your knowledge of the source of the customer's funds |  |  |
|           | (b) a material change occurs in the way in which the customer's account is operated   |  |  |
|           | (c) you suspect that the customer or the customer's account is involved in ML/TF  |  |  |
|           | (d) you doubt the veracity or adequacy of any information previously obtained for the purpose of identifying and verifying the customer's identity  |  |  |
|           | (e) Are other trigger events that you consider and defined in your policies and procedures, please elaborate further in the text box  |  |  |
| <b>24</b> | The brokerage house is not allowed to maintain anonymous accounts or accounts in fictitious names for any new or existing customers.  |  |  |
|           | Do you refrain from maintaining (for any customer) anonymous accounts or accounts in fictitious names?  |  |  |
| <b>25</b> | The brokerage house is required to assess and determine jurisdictional equivalence as this is an important aspect in the application of CDD measures.   |  |  |
|           | When you do your documentation for assessment or determination of jurisdictional equivalence, do you take the following measures?   |  |  |
|           | (a) make reference to up-to-date and relevant information   |  |  |
|           | (b) retain such record for regulatory scrutiny  |  |  |



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|                                 | (c) periodically review to ensure it remains up-to-date and valid   |  |  |
| <b>(D) - Ongoing monitoring</b> |   |  |  |
| <b>26</b>                       | The brokerage house is required to perform effective ongoing monitoring for understanding customer's activities and it helps the firm to know the customers and to detect unusual or suspicious activities. |  |  |
|                                 | Do you continuously monitor your business relationship with a customer by:  |  |  |
|                                 | (a) monitoring the activities (including cash and non-cash transactions) of the customer to ensure that they are consistent with the nature of business, the risk profile and source of funds.              |  |  |
|                                 | (b) identifying transactions that are complex, large or unusual or patterns of transactions that have no apparent economic or lawful purpose and which may indicate ML/TF                                   |  |  |
|                                 | Do you monitor the following characteristics relating to your customer's activities and transactions?   |  |  |
|                                 | (a) the nature and type of transaction (e.g. abnormal size of frequency)  |  |  |
|                                 | (b) the nature of a series of transactions (e.g. a number of cash deposits)   |  |  |
|                                 | (c) the amount of any transactions, paying particular attention to substantial transactions   |  |  |
|                                 | (d) the geographical origin/destination of a payment or receipt   |  |  |
|                                 | (e) the customer's normal activity or turnover  |  |  |
|                                 | Do you regularly identify if the basis of the business relationship changes for customers when the following occur?   |  |  |
|                                 | (a) new products or services that pose higher risk are entered into   |  |  |
|                                 | (b) new corporate or trust structures are created   |  |  |
|                                 | (c) the stated activity or turnover of a customer changes or increases  |  |  |
|                                 | (d) the nature of transactions change or the volume or size increases   |  |  |
|                                 | (e) if there are other situations, please specify and further elaborate in the text box   |  |  |
|                                 | In the case where the basis of a business relationship changes significantly, do you carry out further CDD procedures to ensure that the ML/TF risk and basis of the relationship are fully understood?     |  |  |
|                                 | Have you established procedures to conduct a review of a business relationship upon the filing of a report to the FMU and do you update the CDD information thereafter?                                     |  |  |
| <b>27</b>                       | The brokerage house is required to link the extent of ongoing monitoring to the risk profile of the customer determined through RBA.  |  |  |

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|  | Have you taken additional measures with identified high risk business relationships (including PEPs) in the form of more intensive and frequent monitoring?  |  |  |
|  | If yes, have you considered the following:   |  |  |
|  | (a) whether adequate procedures or management information systems are in place to provide relevant staff with timely information that might include any information on any connected accounts or relationships   |  |  |
|  | (b) how to monitor the sources of funds, wealth and income for higher risk customers and how any changes in circumstances will be recorded   |  |  |
|  | Do you take into account the following factors when considering the best measures to monitor customer transactions and activities?   |  |  |
|  | (a) the size and complexity of its business  |  |  |
|  | (b) assessment of the ML/TF risks arising from its business  |  |  |
|  | (c) the nature of its systems and controls   |  |  |
|  | (d) the monitoring procedures that already exist to satisfy other business needs   |  |  |
|  | (e) the nature of the products and services (including the means of delivery or communication)   |  |  |
|  | In the case where transactions are complex, large or unusual, or patterns of transactions which have no apparent economic or lawful purpose are noted, do you examine the background and purpose, including where appropriate the circumstances of the transactions? |  |  |
|  | If yes, are the findings and outcomes of these examinations properly documented in writing and readily available for the SECP, competent authorities and auditors?   |  |  |
|  | In the case where you have been unable to satisfy that any cash transaction or third party transfer proposed by customers is reasonable and therefore consider it suspicious, do you make a suspicious transaction report to the FMU?                                |  |  |
| <b>(E) - Financial sanctions and terrorist financing</b> |  |  |  |
| <b>28</b>  | The brokerage house has to be aware of the scope and focus of relevant financial/trade sanctions regimes.  |  |  |
|  | Do you have procedures and controls in place to:   |  |  |
|  | (a) ensure that no payments to or from a person on a sanctions list that may affect your operations is made  |  |  |
|  | (b) screen payment instructions to ensure that proposed payments to designated parties under applicable laws and regulations are not made  |  |  |
|  | If yes, does this include:   |  |  |
|  | (a) drawing reference from a number of sources to ensure that you have appropriate systems to conduct checks against relevant lists for screening purposes   |  |  |
|  | (b) procedures to ensure that the sanctions list used for screening are up to date   |  |  |

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|           | Do you take the following measures to ensure compliance with relevant regulations and legislation on TF?  |  |  |
|           | (a) understand the legal obligations of your institution and establish relevant policies and procedures   |  |  |
|           | (b) ensure relevant legal obligations are well understood by staff and adequate guidance and training are provided  |  |  |
|           | (c) ensure the systems and mechanisms for identification of suspicious transactions cover TF as well as ML  |  |  |
|           | Do you maintain a database (internal or through a third party service provider) of names and particulars of terrorist suspects and designated parties which consolidates the various lists that have been made known to it?   |  |  |
|           | If yes, have you also taken the following measures in maintaining the database?   |  |  |
|           | (a) ensure that the relevant designations are included in the database.   |  |  |
|           | (b) the database is subject to timely update whenever there are changes   |  |  |
|           | (c) the database is made easily accessible by staff for the purpose of identifying suspicious transactions  |  |  |
|           | Do you perform comprehensive screening of your complete customer base to prevent TF and sanction violations?  |  |  |
|           | If yes, does it include the following?  |  |  |
|           | (a) screening customers against current terrorist and sanction designations at the establishment of the relationship  |  |  |
|           | (b) screening against your entire client base, as soon as practicable after new terrorist and sanction designation are published by the SECP  |  |  |
|           | Do you conduct enhanced checks before establishing a business relationship or processing a transaction if there are circumstances giving rise to a TF suspicion?  |  |  |
|           | Do you document or record electronically the results related to the comprehensive ongoing screening, payment screening and enhanced checks if performed?  |  |  |
|           | Do you have procedures to file reports to the FMU if you suspect that a transaction is terrorist-related, even if there is no evidence of a direct terrorist connection?  |  |  |
|           | <b>(F) - Suspicious Transaction reports</b>   |  |  |
| <b>29</b> | The brokerage house is required to adopt on-going monitoring procedures to identify suspicious transactions for the reporting of funds or property known or suspected to be proceeds of crime or terrorist activity to the Joint Financial Intelligence Unit ('FMU'). |  |  |
|           | Do you have policy or system in place to make disclosures/suspicious transaction reports with the FMU?  |  |  |
|           | Do you apply the following principles once knowledge or suspicion has been formed?  |  |  |

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|  | (a) in the event of suspicion of ML/TF, a disclosure is made even where no transaction has been conducted by or through your institution   |  |  |
|  | (b) internal controls and systems are in place to prevent any directors, officers and employees, especially those making enquiry with customers or performing additional or enhanced CDD process, committing the offence of tipping off the customer or any other person who is the subject of the disclosure  |  |  |
|  | Do you provide sufficient guidance to your staff to enable them to form a suspicion or to recognise when ML/TF is taking place?  |  |  |
|  | If yes, do you provide guidance to staff on identifying suspicious activity taking into account the following:   |  |  |
|  | (a) the nature of the transactions and instructions that staff is likely to encounter  |  |  |
|  | (b) the type of product or service   |  |  |
|  | (c) the means of delivery  |  |  |
|  | Do you ensure your staff are aware and alert with the SECP's guidelines with relation to:  |  |  |
|  | (a) potential ML scenarios using Red Flag Indicators   |  |  |
|  | (b) potential ML involving employees of the company.   |  |  |
|  | Subsequent to a customer suspicion being identified, have you made prompt disclosures to the FMU if the following additional requests are made by the customer: Note: The brokerage house is required to make prompt disclosure to FMU in any event, but the following requests are considered to be more urgent.  |  |  |
|  | (a) instructed you to move funds   |  |  |
|  | (b) close the account  |  |  |
|  | (c) make cash available for collection   |  |  |
|  | (d) carry out significant changes to the business relationship   |  |  |
| <b>(G) - Record Keeping and Retention of Records</b> |  |  |  |
| <b>30</b>  | The brokerage house is required to maintain customer, transaction and other records that are necessary and sufficient to meet the record-keeping requirements.   |  |  |
|  | Do you keep the documents/ records relating to customer identity?  |  |  |
|  | If yes to the above documents/ records, are they kept throughout the business relationship with the customer and for a period of six years after the end of the business relationship? Note: While the AMLO identifies relevant documents to be retained for 6 years, the RFI should consider other SECP requirements when determining the record keeping and retention period of each document. |  |  |
|  | Do you keep the following documents/ records relating to transactions?   |  |  |
|  | (a) the identity of the parties to the transaction   |  |  |

|                             |   |  |  |
|-----------------------------|---|--|--|
|                             | (b) the nature and date of the transaction  |  |  |
|                             | (c) the type and amount of currency involved  |  |  |
|                             | (d) the origin of the funds   |  |  |
|                             | (e) the form in which the funds were offered or withdrawn   |  |  |
|                             | (f) the destination of the funds  |  |  |
|                             | (g) the form of instruction and authority   |  |  |
|                             | (h) the type and identifying number of any account involved in the transaction  |  |  |
|                             | Are the documents/ records, they kept for a period of five years after the completion of a transaction, regardless of whether the business relationship ends during the period as required under the AML/CFT Regulations? |  |  |
|                             | In the case where customer identification and verification documents are held by intermediaries, do you ensure that the intermediaries have systems in place to comply with all the record-keeping requirements?          |  |  |
| <b>(H) - Staff Training</b> |   |  |  |
| <b>31</b>                   | The brokerage house is required to provide adequate ongoing training for staff in what they need to do to carry out their particular roles with respect to AML/CFT.   |  |  |
|                             | Have you implemented a clear and well-articulated policy to ensure that relevant staff receive adequate AML/CFT training?   |  |  |
|                             | Do you provide AML/CFT training to your staff to maintain their AML/CFT knowledge and competence?   |  |  |
|                             | If yes, does the training program cover the following topics?   |  |  |
|                             | (a) your institution's and the staff's own personal statutory obligations and the possible consequences for failure to report suspicious transactions under relevant laws and regulations                                 |  |  |
|                             | (b) any other statutory and regulatory obligations that concern your institution and the staff under the relevant laws and regulations, and the possible consequences of breaches of these obligations                    |  |  |
|                             | (c) your own policies and procedures relating to AML/CFT, including suspicious transaction identification and reporting   |  |  |
|                             | (d) any new and emerging techniques, methods and trends in ML/TF to the extent that such information is needed by your staff to carry out their particular roles in your institution with respect to AML/CFT              |  |  |
|                             | Do you provide AML/CFT training for all your new staff, irrespective of their seniority and before work commencement?   |  |  |
|                             | If yes, does the training program cover the following topics?   |  |  |
|                             | (a) an introduction to the background to ML/TF and the importance placed on ML/TF by your institution   |  |  |
|                             | (b) the need for identifying and reporting of any suspicious transactions to the Compliance Officer, and the offence of 'tipping-off'   |  |  |

|  |  |  |  |
|--|--|--|--|
|  |  |  |  |
|  | Do you provide AML/CFT training for your members of staff who are dealing directly with the public?  |  |  |
|  | If yes, does the training program cover the following topics?  |  |  |
|  | (a) the importance of their role in the institution's ML/TF strategy, as the first point of contact with potential money launderers  |  |  |
|  | (b) your policies and procedures in relation to CDD and record-keeping requirements that are relevant to their job responsibilities  |  |  |
|  | (c) training in circumstances that may give rise to suspicion, and relevant policies and procedures, including, for example, lines of reporting and when extra vigilance might be required                 |  |  |
|  | Do you provide AML/CFT training for your back-office staff?  |  |  |
|  | If yes, does the training program cover the following topics?  |  |  |
|  | (a) appropriate training on customer verification and relevant processing procedures   |  |  |
|  | (b) how to recognize unusual activities including abnormal settlements, payments or delivery instructions  |  |  |
|  | Do you provide AML/CFT training for managerial staff including internal audit officers and COs?  |  |  |
|  | If yes, does the training program cover the following topics?  |  |  |
|  | (a) higher level training covering all aspects of your AML/CFT regime  |  |  |
|  | (b) specific training in relation to their responsibilities for supervising or managing staff, auditing the system and performing random checks as well as reporting of suspicious transactions to the FMU |  |  |
|  | Do you provide AML/CFT training for your Compliance Officer?   |  |  |
|  | If yes, does the training program cover the following topics?  |  |  |
|  | (a) specific training in relation to their responsibilities for assessing suspicious transaction reports submitted to them and reporting of suspicious transactions to the FMU                             |  |  |
|  | (b) training to keep abreast of AML/CFT requirements/developments generally  |  |  |
|  | Do you maintain the training record details for a minimum of 3 years?  |  |  |
|  | If yes, does the training record include the following details:  |  |  |
|  | (a) which staff has been trained   |  |  |
|  | (b) when the staff received training   |  |  |
|  | (c) the type of training provided  |  |  |
|  | Do you monitor and maintain the effectiveness of the training conducted by staff by:   |  |  |
|  | (a) testing staff's understanding of the LC's / AE's policies and procedures to combat ML/TF   |  |  |
|  | (b) testing staff's understanding of their statutory and regulatory obligations  |  |  |
|  | (c) testing staff's ability to recognize suspicious transactions   |  |  |

|                           |  |  |  |
|---------------------------|--|--|--|
|                           | (d) monitoring the compliance of staff with your AML/CFT systems as well as the quality and quantity of internal reports   |  |  |
|                           | (e) identifying further training needs based on training / testing assessment results identified above   |  |  |
| <b>(I) Wire Transfers</b> |  |  |  |
|                           | Do you ask for further explanation of the nature of the wire transfer from the customer if there is suspicion that a customer may be effecting a wire transfer on behalf of a third party?   |  |  |
|                           |  |  |  |
|                           | Do you have clear policies on the processing of cross-border and domestic wire transfers?  |  |  |
|                           |  |  |  |
|                           | If yes, do the policies address the following?   |  |  |
|                           | (a) record-keeping   |  |  |
|                           | (b) the verification of originator's identity information  |  |  |
|                           | Do you include wire transfers in your ongoing due diligence on the business relationship with the originator and the scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with your knowledge of the customer, its business and risk profile? |  |  |

**Controls Assessment Template**

| #         | Controls   | Weak | Satisfactory | Strong |
|-----------|--|------|--------------|--------|
| <b>1.</b> | <b>Governance Arrangements and Three Lines of Defense</b>  |      |              |        |
| 1.1       | Written AML/CFT policies and procedures approved by Board of Directors   |      |              |        |
| 1.2       | Risk assessment reviewed and updated periodically  |      |              |        |
| 1.3       | Are policies, procedures and compliance program updated periodically?  |      |              |        |
| 1.4       | Oversight by the Board of Director and senior management   |      |              |        |
| <b>2.</b> | <b>Three Lines of Defense</b>  |      |              |        |
| 2.1       | AML/CFT Chief Compliance Officer appointed   |      |              |        |
| 2.2       | Internal Audit Function  |      |              |        |
| 2.3       | Written policies and procedures communicated to all personnel  |      |              |        |
| 2.4       | Employee due diligence program   |      |              |        |
| 2.5       | Ongoing Employee Training Programs   |      |              |        |
| <b>3</b>  | <b>Program and Systems</b>   |      |              |        |
| 3.1       | AML/CFT in a Group-Wide and Cross-Border Context   |      |              |        |
| 3.2       | Internal Procedures/system for Detecting and Reporting Suspicious Transactions   |      |              |        |
| 3.3       | Appropriate integrated management information systems  |      |              |        |
| 3.4       | Review of Exception Reports to alert Senior Management/ Board of Directors   |      |              |        |
| 3.5       | Mechanism for asset freezing and sanction compliance   |      |              |        |
| 3.6       | Secrecy Privacy Of Information (Tip Off) ensured   |      |              |        |
| 3.7       | STR/CTR Cash generated and reported on timely basis  |      |              |        |
| 3.8       | Is there a procedure for independent review of AML/CFT program?  |      |              |        |
| <b>4</b>  | <b>Customer Identification, Verification and Acceptance Policy</b>   |      |              |        |
| 4.1       | Written policies and procedures for CDD/KYC  |      |              |        |
| 4.2       | Approval by senior management before establishing business relationships with high-risk customers                                    |      |              |        |
| 4.3       | Customer due diligence programs  |      |              |        |
| 4.4       | Enhanced due diligence program for high risk customers   |      |              |        |
| 4.5       | Customer Risk Profiling  |      |              |        |
| 4.6       | Mechanism to review/update risk rating and profile of customers  |      |              |        |
| 4.7       | Systematic Procedure for Identifying and Verifying:<br>a) Customers<br>b) Beneficial Owners<br>c) PEPs<br>d) Person acting on behalf |      |              |        |
| 4.8       | Outsourcing customer identification/verification or reliance on others to perform customer identification                            |      |              |        |
| 4.9       | Due diligence assessment of correspondent relationship   |      |              |        |



| #        | Controls   | Weak | Satisfactory | Strong |
|----------|--|------|--------------|--------|
| <b>5</b> | <b>Ongoing Monitoring</b>  |      |              |        |
| 5.1      | Transaction monitoring mechanism in place to detect unusual or suspicious transactions   |      |              |        |
| 5.2      | Screening of customer with database and changes to sanction lists                        |      |              |        |
| 5.3      | Is transaction Monitoring System automated?  |      |              |        |
| 5.4      | Customer due diligence for existing customers  |      |              |        |
| <b>6</b> | <b>Management of Information</b>   |      |              |        |
| 6.1      | Customer identification, verification and due diligence information                      |      |              |        |
| 6.2      | Record-keeping procedures allow for tracing transactions and provide a clear audit trail |      |              |        |
| 6.3      | Are records maintained electronically?   |      |              |        |

**RISK PROFILING OF CUSTOMER**

The following sets out examples of factors that the brokerage house will consider when performing initial risk assessment. Where there is one or more “yes” responses, professional judgment will be exercised with reference to the policies and procedures of the brokerage house, as to the nature and extent of customer due diligence to be carried out.

**For Internal Use**

| <b>Section A: If the response to any of the statements in Section A is “Yes”, the entity shall not establish business relationship with the client.</b> |  | <b>Yes / No</b> | <b>Remarks</b> |
|---|--|-----------------|----------------|
| 1   | Customer unable to provide all the required information in relevant forms  |                 |                |
| 2   | Customer unable to provide identity document and source of funds   |                 |                |
| 3   | Customer, Beneficial Owner of the customer, person acting on behalf of the customer, or connected party of the customer matches the details in the following lists:  |                 |                |
|   | a. Proscribed under the united nations security council resolution and adopted by the government of Pakistan;  |                 |                |
|   | b. Proscribed under the Anti-Terrorism Act 1997  |                 |                |
| 4   | There is a suspicion of money laundering and/or terrorist financing  |                 |                |
| <b>Section B; Customer Risk Factor</b>  |  |                 |                |
| 1   | Is the customer, any of the beneficial owners of the client or person acting on behalf of the customer, a politically exposed person (PEP), family member of a PEP or close associate of a PEP?  |                 |                |
| 2   | Is the Customer non-resident Pakistani?  |                 |                |
| 3   | Is the Customer foreign national?  |                 |                |
| 4   | Is the Customer High net worth individual?   |                 |                |
| 5   | Legal Person   |                 |                |
|   | • Companies – Local  |                 |                |
|   | • Companies - Foreign  |                 |                |
|   | • Foreign Trust or Legal arrangements  |                 |                |
|   | • Local Trust or Legal arrangements  |                 |                |
|   | • Partnerships   |                 |                |
|   | • NGOs and Charities   |                 |                |
|   | • Cooperative Societies  |                 |                |
| 6   | Intermediaries e.g. Third parties acting on behalf of customers (Lawyers, Accountants etc.)  |                 |                |
| 7   | Performed further screening of details of customer, beneficial owner of the customer, person acting on behalf of the customer, or connected party of the customer against other information sources, for example, Google, the sanction lists published and/ or other third party screening database.<br>Are there adverse news or information arising? |                 |                |
| 8   | Customer’s source of wealth/ Income is high risk/ cash intensive   |                 |                |

|   |   |  |  |
|---|---|--|--|
| 12  | Does the stated source of wealth / source of funds and the amount of money involved correspond with what you know of your customer?   |  |  |
| <b>Section C Country / Geographic Risk Factors</b>  |   |  |  |
| 1   | Is the customer, beneficial owner of the customer or person acting on behalf of the customer from or based in a country or jurisdiction:  |  |  |
|   | a. Identified as High-risk jurisdiction by the FATF and for which entity should give special attention to business relationships and transactions. (Countries having weak governance, law enforcement, and regulatory regimes). |  |  |
|   | b. Countries subject to sanctions, embargos or similar measures issued by international authorities (E.G.UN, WB,IMF)  |  |  |
|   | c. Countries where protection to customers, privacy prevents effective implementation of AML/CFT requirements and/or facilitates the framework for establishment of shell-companies.  |  |  |
|   | d. Countries/ Geographies identified by recognized sources as having significant levels of organized crime, corruption or criminal activity.  |  |  |
|   | e. Countries / Geographies identified by recognized sources as providing funding or support for terrorist activities or have terrorist organizations operating within them  |  |  |
| <b>Section D: Services/ Transactions Risk Factors</b>   |   |  |  |
| 1   | Is the business relationship with the customer established through non face to face channel?  |  |  |
| 2   | Significant and unexplained geographic distance between residence in business location to the customer and the location where the product sale took place ( or the location of the insurer' representative)                     |  |  |
| <b>Section E: Customer Risk Assessment</b>  |   |  |  |
| <input type="checkbox"/> Low - Simplified <input type="checkbox"/> Medium - Standard CDD <input type="checkbox"/> High - Enhanced CDD |   |  |  |
| Document reasons for customer risk rating   |   |  |  |
| <b>Section F: Recommendation</b>  |   |  |  |
| <input type="checkbox"/> Accept customer  |   | <input type="checkbox"/> Reject customer |  |
| Assessed by:  | Approved by   |  |  |
| Designation:  | Designation:  |  |  |
| Signature:  | Signature:  |  |  |
| Date:   | Date:   |  |  |

### **ML/TF Warning Signs/ Red Flags**

The following are some of the warning signs or “red flags” to which the brokerage house should be alerted. The list is not exhaustive, but includes the following:

1. Customers who are unknown to the broker and verification of identity / incorporation proves difficult.
2. Customers who wish to deal on a large scale but are completely unknown to the broker.
3. Customers who wish to invest or settle using cash.
4. Customers who use a cheque that has been drawn on an account other than their own.
5. Customers who change the settlement details at the last moment.
6. Customers who insist on entering into financial commitments that appears to be considerably beyond their means.
7. Customers who accept relatively uneconomic terms, when with a little effort they could have a much better deal.
8. Customers who have no obvious reason for using the services of the broker (e.g.: customers with distant addresses who could find the same service nearer their home base; customers whose requirements are not in the normal pattern of the service provider’s business which could be more easily serviced elsewhere).
9. Customers who refuse to explain why they wish to make an investment that has no obvious purpose.
10. Customers who are introduced by an overseas agent based in a country noted for drug trafficking or distribution.
11. Customers who carry out large numbers of transactions with the same counterparty in small amounts of the same security, each purchased for cash and then sold in one transaction, particularly if the proceeds are also then credited to an account different from the original account.
12. Customer trades frequently, selling at a loss.
13. Customers who constantly pay-in or deposit cash to cover requests for banker’s drafts, money transfers or other negotiable and readily marketable money instruments.
14. Customers who wish to maintain a number of trustee or customers’ accounts which do not appear consistent with the type of business, including transactions which involve nominee names.
15. Any transaction involving an undisclosed party.
16. Transfer of the benefit of an asset to an apparently unrelated third party, or assignment of such benefit as collateral.
17. Significant variation in the pattern of investment without reasonable or acceptable explanation.
18. Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
19. Transactions involve penny/microcap stocks.
20. Customer requests a securities provider to execute and/or clear a buy order and sell order for the same security or similar or correlated securities (and/or on behalf of the same beneficial owner), in close chronology.
21. Transfers are made to the same person from different individuals or to different persons from the same individual with no reasonable explanation.
22. Unusually large aggregate wire transfers or high volume or frequency of transactions are made with no logical or apparent reason.
23. Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
24. Customer conducts mirror trades.
25. Customer closes securities transaction before maturity, absent volatile market conditions or other logical or apparent reason.

| # | Type of Customer                   | Information/Documents to be Obtained  |
|---|------------------------------------|---|
| 1 | Individuals                        | <p>A photocopy of anyone of the following valid identity documents;</p> <p>(i) Computerized National Identity Card (CNIC) issued by NADRA.</p> <p>(ii) National Identity Card for Overseas Pakistani (NICOP) issued by NADRA.</p> <p>(iii) Pakistan Origin Card (POC) issued by NADRA.</p> <p>(iv) Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only).</p> <p>(v) Passport; having valid visa on it or any other proof of legal stay along with Passport (foreign national individuals only).</p>  |
| 2 | Sole proprietorship                | <p>(i) Photocopy of identity document as per Sr. No.1 above of the proprietor.</p> <p>(ii) Copy of registration certificate for registered concerns.</p> <p>(iii) Copy of certificate or proof of membership of trade bodies etc., wherever applicable.</p> <p>(iv) Declaration of sole proprietorship on business letter head.</p> <p>(v) Account opening requisition on business letter head.</p> <p>(vi) Registered/ Business address.</p>   |
| 3 | Partnership                        | <p>(i) Photocopies of identity documents as per Sr. no. 1 above of all the partners and authorized signatories.</p> <p>(ii) Attested copy of 'Partnership Deed'.</p> <p>(iii) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact shall be clearly mentioned on the Account Opening Form.</p> <p>(iv) Authority letter from all partners, in original, authorizing the person(s) to operate firm's account.</p> <p>(v) Registered/ Business address.</p>  |
| 4 | Limited Companies / Corporations   | <p>(i) Certified copies of:</p> <p>(a) Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account;</p> <p>(b) Memorandum and Articles of Association;</p> <p>(c) Certificate of Incorporation;</p> <p>(d) Certificate of Commencement of Business, wherever applicable;</p> <p>(e) List of Directors on 'Form-A/Form-B' issued under Companies Act, 2017, as applicable; and</p> <p>(f) Form-29, wherever applicable.</p> <p>(ii) Photocopies of identity documents as per Sr. NO.1 above of all the directors and persons authorized to open and operate the account;</p> |
| 5 | Branch Office or Foreign Companies | <p>(i) A copy of permission letter from relevant authority i.e. Board of Investment.</p> <p>(ii) Photocopies of valid passports of all the signatories of account.</p> <p>(iii) List of directors on company letter head or prescribed format under relevant laws/ regulations.</p> <p>(iv) A Letter from Principal Office of the entity authorizing the person(s) to open and operate the account.</p> <p>(v) Branch/liaison office address.</p>   |

|   |   |   |
|---|---|---|
| 6 | Trust, Clubs, Societies and Associations etc. | <p>(i) Certified copies of:</p> <p>(a) Certificate of Registration/Instrument of Trust</p> <p>(b) By-laws/Rules &amp; Regulations</p> <p>(ii) Resolution of the Governing Body/Board of Trustees/Executive Committee, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account.</p> <p>(iii) Photocopy of identity document as per Sr. No.1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body.</p> <p>(iv) Registered address/ Business address where applicable.</p>  |
| 7 | NGOs / NPOs / Charities                       | <p>(i) Certified copies of:</p> <p>(a) Registration documents/ certificate</p> <p>(b) By-laws/Rules &amp; Regulations</p> <p>(ii) Resolution of the Governing Body/ Board of Trustees/Executive Committee, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account.</p> <p>(iii) Photocopy of identity document as per Sr. No. 1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body.</p> <p>(iv) Any other documents as deemed necessary including its annual accounts/ financial statements or disclosures in any form which may help to ascertain the detail of its activities, sources and usage of funds in order to assess the risk profile of the prospective customer.</p> <p>(v) Registered address/ Business address.</p> |

**Proliferation Financing Warning Signs/Red Alerts**

Brokerage house will take note of the following circumstances where customers and transactions are more vulnerable to be involved in proliferation financing activities relating to both DPRK and Iran sanctions regimes:

(a) customers and transactions associated with countries subject to sanctions;

In particular, Brokerage house will be alert to the following non-exhaustive list of factors that are relevant to the DPRK sanctions regime:

(a) significant withdrawals or deposits of bulk cash that could potentially be used to evade targeted financial sanctions and activity-based financial prohibitions;

(b) opening of banking accounts by DPRK diplomatic personnel, who have been limited to one account each under relevant UNSCRs (including number of bank accounts being held, holding of joint accounts with their family members);`