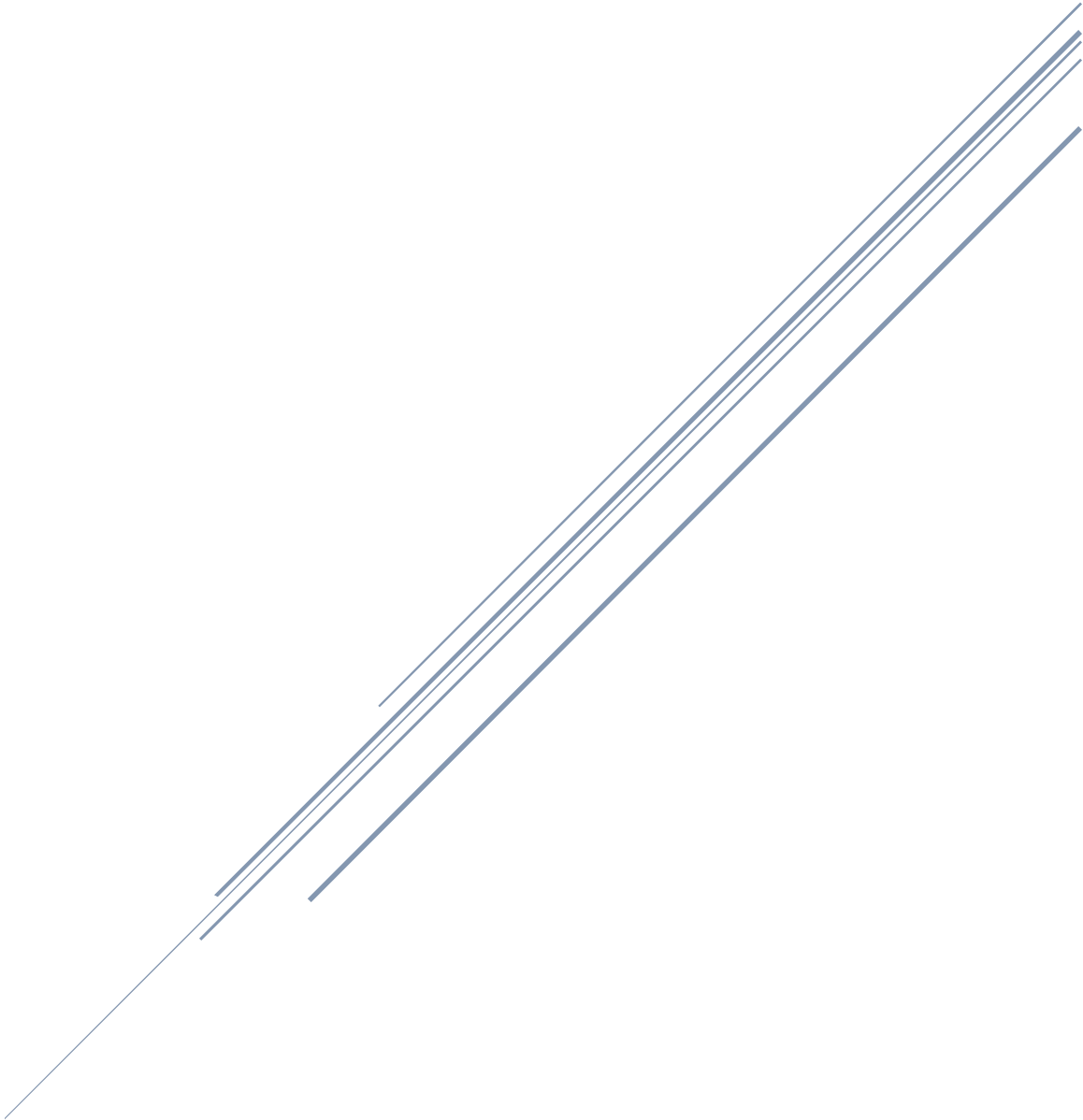


KP Securities (Private) Limited



CUSTOMER DUE DELIGENCE AND KNOW YOUR CUSTOMER POLICY

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Introduction

In the last few years, across the world regulations have been put in place to discourage money laundering and financing of illegal/criminal activities. Furthermore, under the United Nations umbrella, several international agreements have been signed by U.N. member states under which member states are bound to implement policies that discourage money laundering and monitor financial transaction that are suspicious and raise concern about money laundering. Pakistan is a signatory to such agreement and is a member of relevant bodies such as Financial Action Task Force (FATF). As such, Pakistan has to abide by the recommendations of FATF and other relevant bodies and implement appropriate policies and procedures. If Pakistani policies are not in line with such recommendations, the image of the country is tarnished. Not only this, but Pakistani businesses and institutions (e.g. financial institutions, importers & exporters, investors, etc) can face difficulties in transacting business internationally with negative economic consequences for the country. Pakistan has enacted the ANTIMONEY LAUNDERING ACT 2010. Financial institutions and intermediaries must comply with the provisions of this Act.

In the above context, Apex capital market regulator, the SECP have provided comprehensive guidelines for Pakistan capital market institutions regarding how to develop and implement policies and procedures that will help discourage money laundering and also allow capital market institutions to monitor and remain alert regarding suspicious transactions and /or parties who may be attempting to launder money.

In case of the brokerage industry, the Securities and Exchange Commission of Pakistan, being its Apex regulator and the Pakistan Stock Exchange, being the frontline regulator of the brokerage industry, have formulated detailed set of guidelines for broker to help them in developing KYC and CDD policies & procedures and implementing the same.

KP Securities (Pvt.) Limited has formulated a Customer Due Diligence/ Know Your Customer policy, referred here as “CDD/ KYC policy”, based on the criteria/ guidelines specified in the Pakistan Stock Exchange Limited (PSX).

The CDD/ KYC policy has been approved by the Board of KP Securities (Pvt.) Limited in the meeting held in **March ,2016** . In the said meeting, the Board has authorized the CEO to approve any subsequent amendments or modifications associated with this policy. Furthermore, it was also clarified that the first exercise conducted for CDD/ KYC measures, as required under clause 6.1.1 of this policy, shall be applicable for the financial year 2016-17

This policy defines different types of customers, their minimum required information & documents along with the characteristics of High Risk Customers, who pose greater than average risk of money laundering activities. It further explains how to ensure the identity of the clients, who initiates relationship with KP Securities (Pvt.) Limited and how to maintain and update the CDD/ KYC measures for existing customers.

For better services to our customers, KP Securities (Pvt.) Limited has also developed and put in place a “KYC Form” which classifies the categories of CDD/ KYC for both Individual and Institutional clients. KP Securities (Pvt.) Limited Sales Team/ sales agent/ channel partners are required to ensure

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that the customer's information (including Joint Account holders) shall be submitted to the Operations Department/Accounts Maintenance Department by duly submitting a KYC Form.

The KYC Form is attached as Appendix I and shall be considered as integral part of CDD/ KYC policy.

Scope

The scope of CDD/ KYC policy is to establish reasonable measures to know about the customers of KP Securities (Pvt.) Limited, whether individual or institutional, in accordance with the stated guidelines of Know Your Customer and Customer Due Diligence.

The scope of the policy is concerned with the staff of KP Securities (Pvt.) Limited and its branches/liaison offices. For this purpose, training with respect to CDD/ KYC to the concerned staff of KP Securities (Pvt.) Limited shall be carried out on regular basis.

The KYC policy has been developed keeping in view the requirements of CDD/ KYC for the broking clients of KP Securities (Pvt.) Limited only and therefore the scope of the policy is not applicable for the clients other than broking services.

Type of Customers, Information & Documents Required

KP Securities (Pvt.) Limited shall obtain the minimum information/ set of documents from various types of customers, detail of which are as follows

S. #	Type of Customers	Information Required	Documents Required
1	Individuals/Sole proprietorship	<input type="checkbox"/> Name and Father's Name <input type="checkbox"/> Address <input type="checkbox"/> Telephone Number(s) <input type="checkbox"/> Sources of Income <input type="checkbox"/> Nationality & NTN <input type="checkbox"/> Guardian name (if Applicable)	<input type="checkbox"/> Copy of CNIC or passport or attested copy of B form <input type="checkbox"/> Detail of Business / Employment Proof <input type="checkbox"/> Zakat Exemption Certificate (If Applicable) <input type="checkbox"/> Guardian Certificate (If Applicable) <input type="checkbox"/> CNIC of the Guardian (in case of a minor)
2	Partnership Based Entity	<input type="checkbox"/> Name of Partnership Entity <input type="checkbox"/> Names of Partners <input type="checkbox"/> Father's Name of Partners <input type="checkbox"/> Address of Partnership entity <input type="checkbox"/> Telephone Number(s)	<input type="checkbox"/> Copy of CNIC/ passport of all Partners <input type="checkbox"/> Copy of CNIC of authorized signatories <input type="checkbox"/> List of Authorized signatories along with power of Resolution authorizing investments <input type="checkbox"/> Partnership Deed - Mark registered or un-registered <input type="checkbox"/> Copy of latest financials of partnership
3	Companies (Institutional and Corporate)	<input type="checkbox"/> Name of Company and its Directors <input type="checkbox"/> Registered Address <input type="checkbox"/> Telephone number (s) <input type="checkbox"/> Contact persons <input type="checkbox"/> Registered number & NTN	<input type="checkbox"/> Copy of CNIC/ passport of all Directors <input type="checkbox"/> Audited Accounts of the company <input type="checkbox"/> Memorandum and Article of Association <input type="checkbox"/> Board Resolution authorizing investments <input type="checkbox"/> Certificate of Incorporation/ Commencement of List of Authorized Signatories along with copy of CNICs and power of Attorney
4	Clubs, Societies and Associations	<input type="checkbox"/> Name of Club, Society or Association <input type="checkbox"/> Registered address of Club, Society or Association <input type="checkbox"/> Telephone numbers(s) <input type="checkbox"/> Contact Persons	<input type="checkbox"/> Board/Governing Body Resolution for Investment <input type="checkbox"/> Certified copy of by-laws/ rules and regulations <input type="checkbox"/> Copy of CNIC of Board's members <input type="checkbox"/> Certified copy of certificate of Registration <input type="checkbox"/> List of Authorized Signatories along with copy of CNICs and power of attorney <input type="checkbox"/> Copy of latest financials
5	Trusts including, But not limited to, Provident Fund, Gratuity Fund, Pension Fund, Mutual Funds etc.)	<input type="checkbox"/> Name of trust, Fund etc <input type="checkbox"/> Name of Trustee <input type="checkbox"/> Address of Trust/ Fund etc. <input type="checkbox"/> Telephone number(s) <input type="checkbox"/> Contact persons	<input type="checkbox"/> Copy of CNIC of all Trustees <input type="checkbox"/> Certified copy of Trust Deed <input type="checkbox"/> Trustee / Governing body Resolution for investment <input type="checkbox"/> Copy of the latest financials of the Trust <input type="checkbox"/> List of Authorized Signatories along with copy of CNICs and power of attorney <input type="checkbox"/> Trust Deed
6	Executors and Administrators	<input type="checkbox"/> Name of Entity for Executor/ Admin. is appointed <input type="checkbox"/> Name of Executor/ Administrator <input type="checkbox"/> Address of entity & Telephone Numbers	<input type="checkbox"/> Copy of CNIC of Executor/ Administrator <input type="checkbox"/> Certified copy of the letter of Administration.
7	Government Entities	<input type="checkbox"/> Name of Government owned organization <input type="checkbox"/> Address of Government owned <input type="checkbox"/> Telephone numbers <input type="checkbox"/> Contact persons	A Special Resolution/ authority endorsed by the Ministry of Finance or Finance Department from concerned Government (Federal/ Provincial/ Local) <input type="checkbox"/> List of Authorized Signatories <input type="checkbox"/> Copy of CNIC of authorized officer(s) <input type="checkbox"/> Resolution authorizing investment

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The account opening department (AMD) is instructed to open the account of only those clients who either appeared in person at the time of opening of the account or they are verified through visiting their residence. If any client cannot appear in person due to some limitations, then it is instructed that a third-party verification of that person should be carried out by the department in order to confirm the originality of the prospect client. This section will apply for all foreign and local clients. All these procedures must also be applied for the verification of authorized persons in case of Corporate and other institutional clients;

It is notable that all the foreign clients should be screened in the lights of guidelines and recommendations by the Financial Action Task Force (FATF);

Before opening an account, KP Securities (Pvt.) Limited shall verify the copy of CNIC from NADRA. The cost of verification of CNIC from NADRA shall not be passed on to the existing or prospective account holder of KP Securities (Pvt.) Limited;

For this purpose, KP Securities (Pvt.) Limited shall obtain attested copy of CNIC; and

If the customer is trading on behalf of any other person then the Identity of that person must be ensured and a Power of Attorney must be taken from the customer regarding trading of that person on his behalf. That authorized person must also be verified physically through the process as applied on the customer's verification.

Risk Assessment of Customer

KP Securities (Pvt.) Limited has structured few principles for the effective assessment of each and every customer which are as follows;

Each client should be assessed and marked a level of risk i.e. **High, Medium or Low Risk Category**;

These levels are marked on the basis of their source of income & funds, their social status, their location or domicile and customer's identity;

Some categories of customers, as instructed by the SECP, should always be marked in **High Risk Category**. These customers include:

- Non-resident
- NGOs
- Customers from the countries where CDD/KYC and AML regulations are lax of if funds originate or go to these countries
- Customers with business which involves high risk of money laundering
- Customers with links to offshore tax heavens
- High net worth clients with no clearly identifiable source of income
- Customers who ever refused for brokerage services by the other brokers
- Non-face to face customers
- Customers which have income sources or connections with the countries which are not applying FATF recommendations properly
- Politically exposed persons (PEPs)

Anti-Money Laundering policies of the company should be applied for each and every customer in order to establish a transparent source of the income of the customer and also in order to avoid any risk of terror financing.

Enhanced, On-Going and Simplified Due Diligence

Enhanced Due Diligence

There could be some circumstances where an enhanced due diligence of the customer is required by the KP Securities (Pvt.) Limited before opening the trading account. Policies for such circumstances are;

Once a customer is marked as High Risk, it is necessary for the department to have Enhanced Due Diligence;

Such customers should be under vigilance and any unusual transaction should be reported in a **Suspicious Transaction Report (STR)** to Financial Monitoring Unit (FMU);

In case of High Risk Clients including Politically Exposed Person the account opening should be approved by the one of the Directors or Higher Management Personnel of the brokerage house;

Once a customer who was classified as Medium or Low Risk earlier, and then falls in High Risk Category afterwards due to any reason, then all the procedures which requires for the High-Risk Clients should be applied in order to form a transparent procedure for the transactions of this person and an enhanced due diligence should be applied on that customer.

Special care must be taken if the funds received from client is in foreign currency and department must check that all proper and legally applied procedures are adopted while received these funds.

On-Going Due Diligence

CDD is not a one-time process. Department should ensure that on-going due diligence on the customer relationship and scrutiny of transactions is undertaken to ensure that the transactions executed in a particular account are consistent with department's knowledge of the customer, its business, risk profile, historical pattern of transactions and source of funding.

The department should also ensure that the customer's records are updated at regular intervals of the time and sufficient information is obtained regarding any significant change in the customer's profile.

Simplified Due Diligence

The department shall apply simplified or reduced CDD measures in the following circumstances:

- Risk of money laundering or terror financing is lower
- Information on the identity of the customer and beneficial owner of the customer is publically available
- Adequate checks and controls are in place

Following customers may be considered for the simplified CDD:

- Financial institutions which have proper money laundering controls in place and have acting upon FATF recommendations
- Public companies that are subject to regulatory disclosure requirements
- Government administration or enterprises

When opting for simplified CDD, the FATF guidelines in this regard must be considered. Simplified CDD should not be followed when there is an identified risk of money laundering or terrorist financing.

Compliance Function

KP Securities (Pvt.) Limited has a compliance function with suitable human resources and MIS reporting capabilities, enabling it to effectively monitor the client's transactions and make timely reports.

The head of compliance function must have skills and experience necessary for satisfactory performance of functions assigned. Head of Compliance must be independent and report directly to the Board of Directors.

The Compliance function shall ensure compliance with requirements of this policy as well as other regulatory requirements applicable on the company under the relevant legal framework. A record should be maintained for non-compliances and reported to BOD and all such records must be available to regulatory bodies for the purpose of inspection at any time.

Data Retention

KP Securities (Pvt.) Limited shall maintain the relevant documents obtained through the application of CDD / KYC procedures, especially those pertaining to identification of the customer, account files and correspondence exchanged for minimum period of (05) five years.

Operation Department/Accounts Maintenance Department will provide the list of discrepant/incomplete documents to Compliance Department within thirty days after every year and Compliance Department shall provide discrepant/ incomplete information to Operations Department for record maintenance and updation;

Human Resource Department in coordination with Compliance Department shall carry out regular training to the AKDS Sales Team on the updation of clients' information and records; and

Maintain proper records of customer identifications and clearly indicate in writing any exception in fulfilling CDD/ KYC measures. These exceptions will be referred to the CEO to decide future course of action.

Screening

A KP Securities (Pvt.) Limited shall develop and implement screening procedures to ensure high standards while hiring staff. However, the screening process must be an on-going exercise and must be applied consistently to ensure that employees, particularly those working on sensitive positions, meet and maintain high standards of integrity and professionalism.

Principles of CDD/ KYC

KP Securities (Pvt.) Limited has structured few principles for the effective implementation of KYC policy. These principles shall be applicable to all the existing and new customers, details of which are as follows;

- Payment in cash more than Rupees 25,000 or bearer instruments shall be strictly prohibited;
- Third party cheques shall be strictly prohibited;
- If payment in cash more than Rupees 25,000 is received in cash due to any unavoidable reason, then the department will report this receipt to Stock Exchange on appropriate format;
- Any account which has zero balance for a period of more than one year will be considered as “Dormant Account” and only after necessary CDD/ KYC verifications, the Customer is allowed to operate its trading account in KP Securities (Pvt.) Limited;
- Government account shall not be opened in the personal names of the Government Official(s);
- Operation Department/Accounts Maintenance Department will provide the list of discrepant/ incomplete documents in coordination with Sales Team/Traders to Compliance Department within thirty days after every year, who shall obtain all required information/ documents from existing customers;
- CDD/ KYC measures shall be enhanced for High Risk Customers. Characteristics of High Risk Customers are given in Section 7 of this policy;
- Dealing with any Political Exposed Person or customers holding public or high-profile position, relationship with them should be established and/ or maintained with the approval of Senior Management of KP Securities (Pvt.) Limited including if any existing customer becomes holder of any public office or high-profile position;
- For customers that are legal persons or for legal arrangements, KP Securities (Pvt.) Limited is required to take reasonable measures to understand (i) the ownership and control structure of the company (ii) determine that who own or control the company. This includes those persons who exercise ultimate effective control over a company;
- In case KP Securities (Pvt.) Limited is not able to satisfactorily complete the required CDD/ KYC measures, account should not be opened, business relationship should not be established and business transaction should not be carried out. Instead reporting of suspicious transaction is considered. Similarly, relationship with existing customer should be terminated and reporting of suspicious transactions be considered if CDD/ KYC is found unsatisfactory;
- Any exception (including suspicious transaction) identified in fulfilling the criteria/ guidelines laid down in this policy shall be clearly indicated in writing and referred to the Chief Executive Officer (CEO) in order to decide future course of action; and

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- A copy of any exception (including suspicious transaction) reporting to CEO shall also be submitted to Internal Audit & Compliance Department.

Annexures

Annexures to the policy are:

- Annexure-A - KYC / CDD Checklist
- Annexure-B – SECP Guidelines for the Brokers for KYC / CDD
- Annexure-C – Investment Profiling of Client

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Annexure A

FOR INTERNAL USE ONLY

KYC / CDD Checklist

Date	Account Title	Account / UIN #
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SECTION A

Minimum Information / Documents to be provided by Investor			
	P/s tick	P/s tick	P/s tick
1. Individuals/Sole Proprietorships		2. Partnerships	3. Institutions/Corporates
CNIC of Principal and Joint Holders / Passport for Foreign Nationals / NICOP for non-resident Pakistanis		CNICs/NICOP of all partners, as applicable	CNIC / NICOP of Authorized Signatories and Directors
Proof of Employment/Business		Partnership Deed	List of Directors and Officers
NTN Certificate, where available		Latest financial statements	NTN Certificate
		Certificate of Registration (in case of registered partnership firm)	Documentary evidence of Tax Exemption (if applicable)
		NTN Certificate	Certificate of Incorporation
			Certificate of Commencement of Business
			Certified Copy of Board Resolution
			Memorandum & Articles of Association/ Bye Laws/ Trust Deed
		Audited Accounts of the Company	
4. Trusts		5. Clubs Societies and Associations	6. Executors/Administrators
CNICs of all trustees		Certified copy of certificate of Registration	CNICs of all Executors/Administrators
Certified copy of the Trust Deed		List of members	Certified copy of Letter of Administration
Latest financials of the trust		CNIC/NICOP of members of Governing Board	
Documentary Evidence of Tax Exemption (if applicable)		Certified copy of bylaws/rules and regulations	
Trustee/Governing Body Resolution		Copy of latest financials of Society/Association	
		Board/Governing Body Resolution	
If documents / information is complete, proceed to Section B			
List any missing documents / information below:			
1			
2			
If ANY document or information is missing, proceed to Section G.4			

SECTION B

Assessment of information provided in section A		
Based on information provided in A,		
1. Is the investor also the ultimate beneficiary of the funds to be invested If NO, joint account should be opened or power of attorney be provided by ultimate beneficiary with relevant documentary details of the beneficiary	YES	NO
2. In case the Investor is a private company , IS the latest shareholders' list available	YES	NO
3. In case of Government Accounts , Mark YES if the account is not in the personal name of the government official A resolution / authority letter (duly endorsed by Ministry of Finance or Finance Department of concerned government) is available, which authorizes the opening and operating of this account by an officer of federal / provincial / local government in his / her official capacity	YES	NO
If the answer to any of the above questions was 'NO', go to section G.3 or G.4, otherwise go to Section C		

SECTION C

Risk Category of Investor	Please tick box		
1. Government Department / Entity	<input type="checkbox"/>	LOW RISK	<i>Go to Section G.1</i>
2. Public listed company	<input type="checkbox"/>	LOW RISK	<i>Go to Section G.1</i>
3. Private limited company	<input type="checkbox"/>	MEDIUM RISK	<i>Go to Section G.2</i>
4. Non-Governmental Organization (NGO)	<input type="checkbox"/>	HIGH RISK	<i>Go to Section G.3</i>
5. Trust / Charity	<input type="checkbox"/>	HIGH RISK	<i>Go to Section G.3</i>
6. Unlisted Financial institution	<input type="checkbox"/>		<i>Go to Section D</i>
7. Individual	<input type="checkbox"/>		<i>Go to Section E</i>

Annexure-A

SECTION D

Unlisted Private Financial Institution (NBF)		
Is the unlisted private financial institution domiciled in Pakistan and is regulated by the SECP/State Bank of Pakistan (SBP)	YES	NO
OR Is it domiciled in a FATF member country that is satisfactorily following the FATF recommendations and is supervised by a regulatory body	YES	NO
If YES, proceed to Section G.1		If NO, proceed to Section G.3

SECTION E

Individual		
1. Is the person a non-resident Pakistani	YES	NO
2. Is the person a high net worth individual with no identifiable source of income or his/her profile/source of income doesn't match with size & quantum of investments/ transactions	YES	NO
3. Is the person involved in dealing in high value items (based on declared occupation)	YES	NO
4. Is the person a foreign national	YES	NO
5. Does the person appear to have links or money transfer to/from offshore tax havens or belongs to country(s) where KYC/CDD and anti money laundering regulations are lax (in terms of not sufficiently applying FATF recommendations)	YES	NO
6. Is there any reason to believe that the person has been refused account opening by another financial institution / brokerage house	YES	NO
7. Is the person opening the brokerage account on a non-face-to-face basis/on-line customer	YES	NO
If the response to any question (1-7) above was 'YES', proceed to Section G.3		
8. Is the person a holder of a senior level public (government) office i.e. a politically exposed person (PEP) or a family member of PEP.	YES	NO
9. Is the person a holder of high profile position (e.g. senior politician)	YES	NO
If the response to any question (8-9) above was 'YES', proceed to Section F, else proceed to Section G.1		

SECTION F

Politically Exposed Person / Foreign National / Holders of High Profile Position		
Is the brokerage account relationship with this high risk category person including politically exposed person / foreign national / holder of high profile position, approved by the Nominee Director, CEO / COO of the brokerage house (approval shall be provided by management through signing the respective Account Opening Form)	YES	NO
If YES, proceed to Section G.3		If NO, proceed to Section G.4

SECTION G

Investor Risk Profile		
	Risk Classification	KYC Requirements
G.1	LOW RISK	Reduced KYC Requirements shall be applicable: Investor account can be opened once information / documents mentioned in section A have been provided.
G.2	MEDIUM RISK	Greater care required and documents listed in Section A should be obtained before opening of account.
G.3	HIGH RISK	Enhanced KYC Requirements shall be applicable: Investor account can be opened once information / documents mentioned in section A have been provided. Transactions shall be monitored to ensure that the funds used for investments are from an account under the Investor's own name in a financial institution (e.g. bank) subject to high due diligence standards and the amount and frequency of Investments are not unusual given the nature and financial strength of the Investor
G.4	HIGH RISK	Account cannot be opened as KYC Requirements have not been fulfilled.

CONFIRMATION of physical presence of customer when opening account:	YES	NO
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Other Comments

Completed by:	<i>Name of Sales Person / Agent</i>	<i>Signature</i>	<i>Date</i>
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Checked by:	<i>Name of Compliance Person</i>	<i>Signature</i>	<i>Date</i>
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Annexure-B

Guidelines for the brokers for developing effective Know Your Customer (KYC) and Customer Due Diligence (CDD) policies and procedures

1. While developing the KYC and CDD policies and framework, International best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF) must be taken into account.
2. The KYC/CDD policy, at minimum, must provide for the following:
 - a. Customer Identification
 - b. Risk assessment of customer
 - c. Circumstances where Enhanced Due Diligence is required
 - d. On-going due Diligence
 - e. Circumstances where simplified Due Diligence can be adopted
 - f. Compliance function
 - g. Data retention
 - h. Training and employee screening
3. **Customer identification**
 - 3.1 Brokers shall ensure that no anonymous accounts or accounts that are obviously in the name of fictitious persons are opened or maintained. Brokers must take all reasonable steps to confirm the true identity of the prospective client and to collect all relevant information to ascertain the identity of the real controlling party of the trading account. For this purpose, minimum set of documents as prescribed by SECP from time to time must be obtained. Brokers may obtain any additional documents where considered necessary.
 - 3.2 The Brokers shall determine whether a customer is acting on behalf of another person. In such cases steps should be taken and all the relevant documents should be obtained to determine the true identity of that person.
 - 3.3 For legal persons, Brokers must take reasonable measures to understand the beneficial ownership and control structure of the customer. For this purpose, Brokers shall seek to identify the natural persons with controlling interest and who constitute the mind and management of the legal person or arrangement.
 - 3.4 For legal persons, Brokers shall verify that person purporting to act on behalf of the customer is so authorized.

Annexure-B

Guidelines for the brokers for developing effective Know Your Customer (KYC) and Customer Due Dillgence (CDD) policies and procedures

- 3.5 Broker must ensure that accounts of Institutions/ body corporate are not opened in the individual name of any employee/ official. Government accounts should not be opened in the personal names of Government officials. Any such account, which is to be operated by an officer of is to be operated by an officer of the Federal/Provincial/Local Government in his/her official capacity, shall be opened only on production of a special resolution/ authority from the concerned administrative department duly endorsed by the Ministry of Finance or Finance Department of the concerned Provincial or Local Government.
- 3.6 Brokers should obtain and document sufficient information on the purpose and intended nature of the account to be opened/ maintained with them and develop a profile of the customer based on results of customer identification and the risk assessment. Information regarding the intended investment plan of the customer must also be obtained to the extent possible and should be documented.
- 3.7 Brokers must obtain sufficient information to determine the expected source of funding for the account, particularly whether the client shall be receiving/ remitting funds in foreign currency.
- 3.8 In addition to the requirements mentioned above, Brokers must ensure that all receipts and payments to the customers above the prescribed threshold must be through cross cheques, bank drafts, pay orders or other crossed banking instruments. For exceptional circumstances where it becomes necessary for a broker to accept cash from a customer, reporting of such instances with rationale should be made immediately to the exchanges.
- 3.9 The brokers shall ensure physical presence of the customer at the time of opening of account. In case of off-shore clients or clients in cities where the broker does not have a branch, Broker must apply appropriate procedures, such as verification by a reliable third party, confirmation from previous broker of the clients etc. When obtaining confirmation from the third parties in different jurisdictions the brokerage house must consider whether that jurisdiction is following the FATF recommendations.

Annexure-B**Guidelines for the brokers for developing effective Know Your Customer (KYC) and Customer Due Diligence (CDD) policies and procedures**

- 4.3 Broker should conduct a self assessment for money laundering and terrorist financing risk, identifying and documenting the key risks presented to it by virtue of its business model, types of customers and geographical placement.

5. Enhanced Due Diligence

- 5.1 Brokers should apply Enhanced Due Diligence (EDD) when dealing with high-risk customers. Appropriate policies and procedures must be developed and put in place to ensure that activities and transactions of High-risk customers are adequately monitored and any unusual transactions are reported.

- 5.2 While dealing with the high-risk customers including the PEPs, the Brokers should:

- a) Obtain senior management approval for establishing business relationships with such customers. The same shall also apply in case of an existing customer which is classified as High-risk pursuant to these guidelines or which is subsequently classified as a result of ongoing due diligence;
- b) Take reasonable measures to establish the source of wealth and source of funds.

- 5.3 If the Broker is unable to comply with the above requirements, it should not open the account, or should terminate the business relationship, as the case may be and should submit a Suspicious Transaction Report.

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

7. On-going Due Diligence

- 7.1 CDD is not a one-time exercise. Brokers should ensure that on-going Due Diligence on the customer relationship and scrutiny of transactions is undertaken to ensure that the transactions executed in a particular account are consistent with the Broker's knowledge of the customer, its

Annexure-B

Guidelines for the brokers for developing effective Know Your Customer (KYC) and Customer Due Diligence (CDD) policies and procedures

business and risk profile, historical pattern of transactions and the pattern and source of funding of the account.

- 7.2 Brokers shall ensure that the customer records are updated at regular intervals and sufficient information is obtained regarding any significant change in the customer profile.

8. Simplified Due Diligence

- 8.1 Brokers shall apply simplified or reduced CDD measures in the following circumstances:

- a) risk of money laundering or terrorist financing is lower
- b) information on the identity of the customer and the beneficial owner of a customer is publicly available
- c) adequate checks and controls exist

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

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

- 8.3 When opting for simplified or reduced due diligence, the FATF guidelines in this regard must be consulted. Simplified CDD should not be followed when there is an identified risk of money laundering or terrorist financing.

9. Compliance function

- 9.1 Brokers should set up a compliance function with suitable human resource and MIS reporting capabilities, enabling it to effectively monitor the clients' transactions and make timely reports.

Annexure-B

Guidelines for the brokers for developing effective Know Your Customer (KYC) and Customer Due Diligence (CDD) policies and procedures

9.2 The Head of Compliance function must have skills and experience necessary for satisfactory performance of functions assigned. Head of Compliance must be Independent and report directly to the Board of Directors.

9.3 The Compliance function shall ensure compliance with the requirements of these guidelines as well as other regulatory requirements applicable on the Broker under the relevant legal framework. A record should be maintained of all violation/ non-compliance identified and reported to the BoD and must be available for the inspection of Commission as and when required.

10. Data Retention

Brokers shall maintain the relevant documents obtained through the application of KYC/CDD procedures, especially those pertaining to identification of the identity of a customer, account files and correspondence exchanged for a minimum period of five years.

11. Training

The Brokers should develop an on-going employee training program to ensure that the employees understand their duties and are able to perform the same on a satisfactory level.

12. Screening

12.1 Brokers shall develop and implement appropriate screening procedures to ensure high standards while hiring staff. However, the screening process must be an on-going exercise and must be applied consistently to ensure that employees, particularly those working at sensitive positions, meet and maintain high standards of integrity and professionalism.

12.2 Brokers must provide any information concerning its clients and their transactions to the exchanges, Financial Monitoring Unit or the Commission as and when required.

13. Other requirements

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