

INTRODUCTION

In the last few years, across the world regulation have been put in place to discourage money laundering and financing of illegal / criminal activities. Furthermore, under the United Nation umbrella, several International agreements have been signed by U.N. member states under which member states are bound to implement policies that discourage money laundering and monitor financial transaction that are suspicious and raise concern about money laundering. Pakistan is a signatory to such agreement and is a member of relevant bodies such as Financial Task Force (FATF). As such, Pakistan has to abide by the recommendation 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 business and institutions (e.g. financial institutions, importers and 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 provision 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.

THE KYC & CDD POLICY OUTLINE

It is important to highlight that money laundering and financing of criminal activities is a very serious offense and the brokerage community must always remain vigilant that their good offices are not used for any such activity. This is important for the growth and development of individual brokerage houses and the securities industry in Pakistan. Key areas that the KYC/CDD policy covers include:

- 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.

The MAKSL shall also consider international best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF).

CUSTOMER IDENTIFICATION

3.1 It is a basic tenet of MAKSL to know who its customers are. This helps MAKSL to protect itself from being used by unscrupulous and/or criminal elements. In this regard, MAKSL shall take all reasonable care to establish the true identity of customers. A minimum set of documents that need to be obtained from customers/potential customers at the time of opening their brokerage account has been prescribed by the SECP. To be prudent, MAKSL shall obtain any other document from the account opener if MAKSL believe it will help in establishing the true identity of the customer and the real controlling person behind the account. The key point is that MAKSL must not open anonymous or obviously fictitious accounts.

3.2 It is important to recognize if a customer is acting on behalf of another person. If this is the case, than the identity of that person should be ascertained and relevant documents of that person need to be obtained also.

3.3 For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies/ organizations) additional care has to be taken to establish the ownership and control structure of such an Page 3 of 7 organization and who (i.e. person(s)) actually owns the organization and who manage it.

3.4 MAKSL shall verify that the person who represents himself as authorized signatory with powers to open and operate the brokerage account is actually authorized by the organization.

3.5 MAKSL shall make sure and be careful that account of Institutions/organizations / corporate bodies are not opened in the name of employees(s)/ official(s). Because of sensitive nature of public (government) entities and risk of potential conflict of interest. It is critical for MAKSL to ensure that accounts of Govt. Institution are not opened in the individual name of any employee/official. Any such account, which is to be operated by and officer of a govt. owned entity, 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 Provisional or Local Government.

3.6 When and individual or an organization/institution opens brokerage account with MAKSL. It is important to find out and document in broad terms what does the customer intend to do.

3.7 For example, are there any specific sectors or stocks that the customer does not wish to participate in; is the customer intending to invest for short-term only or is the customer intending to invest for longer term; will investment be only in liquid scripts or any script; or any other special needs or

requirements of the customer. This, along with customer's other information such as age, gender, occupation; knowledge of market, etc. will help MAKSL to develop a sense of the risk taking capacity and profile of the customer and thus guide the customer in more effective manner. At the same time, it will also help MAKSL to understand whether the customer should be classified as a low risk or a high risk customer from the KYC/CDD perspective. For example, domestic customer working in a company with regular income would be low risk category; on the other hand, a government employee may be in a higher risk category because of the potential for conflict of interest; or a foreign organization having foreign currency source would be in high risk category requiring more careful identification procedure and close monitoring of account operations.. MAKSL shall carefully determine the source of funding especially if the customer is expected to receive/send funds in foreign currency.

3.8 As is already the practice and part of PSX regulations, MAKSL must follow the regulation that the all receipts/ payments above Rs. 25,000/= are made through cross-cheques, bank drafts, pay orders or other crossed banking instruments. Where any cash is accepted from a customer in an exceptional circumstance only, it has to be immediately reported to the Exchange with clear reasons as to why the cash receipt was accepted by the broker.

3.9 In general, physical presence of the account opener/authorized representative is necessary at the time of opening a brokerage account. In the case of non- resident/overseas customers or customers in other cities where the MAKSL does not have a branch/office, more strong identity verification by a reliable third party reference of an existing customer of the MAKSL, customer from another broker with whom the customer had an account etc. Furthermore, it is important when obtaining confirmation from third parties in other jurisdictions, especially foreign, that MAKSL consider whether that foreign jurisdiction is following the Financial Action Task Force (FATF) recommendations.

RISK ASSESMENT

4.1 The risk assessment by brokers has to be done on the basis of information obtained at the time of brokerage account opening and has to be updated on the basis of information obtained during the relationship and doing business with the customer. It shall be based on customer's identity, nature of income, source, of funding, location/domicile of customer, etc. SECP has provided the following broad outline of factors that will categorize the customer into HIGH RISK CATEGORY:

I. Non-resident customers;

II. Legal persons or arrangements including non-governmental organizations; (NGO)/ not-for-profit organizations (NPOs) and trusts / charities;

III. Customers belonging to countries where CDD/KYC and anti-money laundering regulations are relax or if funds originate or go to those countries;

IV. Customers whose business or activities present a higher risk of money laundering such as cash based business;

V. Customers who links to offshore tax havens;

VI. High net worth customer with no clearly identifiable source of income.

VII. There is reason to believe that the customer has been refused brokerage services by another brokerage house;

VIII. Non-face-to-face / on-line customers;

IX. Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations; and

X. Politically Exposed Persons (PEPs) or customers holding public or high profile positions.

4.2 "Politically Exposed Persons" (PEPs), PEP's also fall under HIGH RISK CATEGORY. These generally include individuals in prominent positions such as senior politicians, senior government, judicial or military officials; senior executives of state Corporations AND their family members and close associations. These individuals present reputational risk and potential conflict of interest and extra caution is required when opening their brokerage account and monitoring their account activity. The above is not intended to cover middle ranking/ junior officials in above noted categories. However, prudence requires MAKSL to be careful.

4.3 In general, MAKSL shall conduct a self-assessment for money laundering and terrorist financing risk, identifying and documenting the key risks presented by virtue of its business model types of customers and geographical placement.

4.4 The bottom line is that MAKSL shall assess the risk of potential money laundering / terrorism financing.

ENHANCED DUE DILIGENCE

5.1 Once a customer has been categorized as HIGH RISK, it is necessary for the MAKSL to have Enhanced Due Diligence (EDD) when dealing with such a customer. Activities and transactions of HIGH RISK customers are monitored and any unusual transactions are reported in a SUSPICIOUS TRANSACTION REPORT (STR).

5.2 When dealing with high-risk customers, including Politically Exposed Person (PEP's) either MAKSL itself or nominee director/ senior management of the MAKSL, has to approve the opening of brokerage account with the board. In the case of HIGH RISK CATEGORY customers, it is all the more important for MAKSL to determine the source of wealth and funds invested. Exercise of categorizing customers in LOW, MEDIUM, and HIGH RISK category applies to all customers, including existing customers. Thus, if an existing customer falls into the HIGH RISK CATEGORY, the requirements for monitoring and reporting suspicious transactions and senior management approval for continuing with the customer will also apply to such customer(s).

5.3 If the above requirement cannot be fulfilled than MAKSL shall not open the brokerage accounts of such person(s) and file a Suspicious Transaction Report (STR). In case an existing customer falls into

HIGH RISK CATEGORY and the MAKSL is unable to fulfill the above mentioned requirement, such account should be closed and a Suspicious Transaction Report filed.

BROKERAGE ACCOUNT NOT BE OPENED

6.1 Brokerage account shall not be opened if the MAKSL is unable to verify the identity of the customer /beneficial owner of the account or if it is unclear what the purpose and intention of customer is and should file an STR. If there are any such existing accounts, they should be closed and a Suspicious Transaction Report (STR) filed.

ON-GOING DUE DILIGENCE

7.1 It is important for MAKSL to realize that Customer Due Diligence (CDD) is not a one-time exercise at the time of account opening only. In order to guard against misuse of MAKSL good offices against criminal transactions MAKSL need to be vigilant at all the times and keep monitoring transactions of its customers to ensure that the transactions executed in any particular account are within the understanding of the MAKSL. In term of the customer's profile, risk category, historical pattern of the transactions and their historic funding source. For example, if a domestic individual customer orders a transaction size, the broker has to become alert and be satisfied that no suspicious reportable activity is taking place. Similarly, if a regular domestic customer, all of a sudden shows foreign sources of funds, this is likely to require further the investigation by the MAKSL.

7.2 MAKSL shall keep all customer records updated and assessing any change in customer profile on regular basis which change shall be documented and sufficient information shall be obtained regarding such change.

SIMPLIFIED DUE DELIGENCE

8.1 It is acceptable for MAKSL to 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 control exist.

8.2 Following customers may be considered for simplified or reduced CDD:

- Financial Institutions which are subject to requirement 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.

COMPLIANCE FUNCTION

9.1 It is important that a system be developed at the MAKSL end to implement these guidelines. In order to achieve this objective two key elements have to be instituted at the MAKSL's end; (i) Compliance Function with suitable human resources (ii) MIS reporting capability.

9.2 The person responsible for compliance should be designated and he should have sufficient skills and experience to perform the compliance function. Compliance shall report to the Board of Directors

9.3 It is the responsibility of the compliance function to ensure that KYC/CDD guidelines are being complied with as well as with other regulatory requirements. This includes maintaining record of violation/ non-compliance identified which has to be reported to the Board of Directors. Any such record has to be available for inspection by SECP and PSX as and when required.

DATA RETENTION All data relating to KYC/CDD shall be maintained for a minimum of five years, including identity of the customer(s) account files and correspondence exchanged with the customer(s)

TRAINING There has to be on-going training of employees to understand their duties under KYC/CDD and are able to perform those duties accordingly.

SCREENING

12.1 MAKSL shall take appropriate screening procedures to ensure high standards while hiring staff. 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 MAKSL shall provide any information concerning its client and their transaction to the exchanges, Financial Monitoring Unit or the Commission as and when required.

13. OTHER REQUIRMENT

MAKSL must comply the requirement of ANTI MONEY LAUNDERING ACT 2010.

KYC/ CDD Checklist

Date	Account Title	Account / UIN #
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SECTION A

Minimum Information / Documents to be provided by Investor				
	Pls tick		Pls tick	
1. Individuals /Sole Propriet orships	<input type="checkbox"/>	2. Partnerships	<input type="checkbox"/>	
CNIC of Principal and Joint Holders / Passport for Foreign Nationals / NICOP for non-resident Pakistanis	<input type="checkbox"/>	CNICs/NICOP of all partners, as applicable	<input type="checkbox"/>	
Proof of Employment/Business	<input type="checkbox"/>	Partnership Deed	<input type="checkbox"/>	
NTN Certificate, where available	<input type="checkbox"/>	Latest financial statements	<input type="checkbox"/>	
	<input type="checkbox"/>	Certificate of Registration (in case of registered partnership firm)	<input type="checkbox"/>	
	<input type="checkbox"/>	NTN Certificate	<input type="checkbox"/>	
	<input type="checkbox"/>		Documentary evidence of Tax Exemption (if applicable)	<input type="checkbox"/>
	<input type="checkbox"/>		Certificate of Incorporation	<input type="checkbox"/>
	<input type="checkbox"/>		Certificate of Commencement of Business	<input type="checkbox"/>
	<input type="checkbox"/>		Certified Copy of Board Resolution	<input type="checkbox"/>
4. Trusts	<input type="checkbox"/>	5. Clubs Societies and Associations	<input type="checkbox"/>	
CNICs of all trustees	<input type="checkbox"/>	Certified copy of certificate of Registration	<input type="checkbox"/>	
Certified copy of the Trust Deed	<input type="checkbox"/>	List of members	<input type="checkbox"/>	
Latest financials of the trust	<input type="checkbox"/>	CNIC/NICOP of members of Governing Board	<input type="checkbox"/>	
Documentary Evidence of Tax Exemption (if applicable)	<input type="checkbox"/>	Certified copy of bylaws/rules and regulations	<input type="checkbox"/>	
Trustee/Governing Body Resolution	<input type="checkbox"/>	Copy of latest financials of Society/Association	<input type="checkbox"/>	
	<input type="checkbox"/>	Board/Governing Body Resolution	<input type="checkbox"/>	
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 <u>not</u> 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 Invest or	Please tick box		
1. Government Department / Entity	<input type="checkbox"/>	LOW RISK	Go to Section G.1
2. Public listed company	<input type="checkbox"/>	LOW RISK	Go to Section G.1
3. Private limited company	<input type="checkbox"/>	MEDIUM RISK	Go to Section G.2
4. Non-Governmental Organization (NGO)	<input type="checkbox"/>	HIGH RISK	Go to Section G.3
5. Trust / Charity	<input type="checkbox"/>	HIGH RISK	Go to Section G.3
6. Unlisted Financial institution	<input type="checkbox"/>		Go to Section D
7. Individual	<input type="checkbox"/>		Go to Section E

SECTION D

Unlisted Private Financial Institution (NBF1)		
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 does not match with size & quantum of investments/	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	YES	NO
If the response to any question (1-7) above was YES, proceed to Section G.3.	YES	NO
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)		
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

Checked by:	Name of Sales Person / Agent	Signature	Date
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Completed by:	Name of Compliance Person	Signature	Date
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