

# Guidelines for Know Your Customer (KYC) and Anti-Money Laundering (AML) Procedures

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**MRA Securities Limited**  
TREC Holder Pakistan Stock Exchange Limited

**1st update date: November 2018**  
**2nd update date :November 2019**  
**3<sup>rd</sup> update date :February 13, 2020**  
**Last Update date: January 2021**



## **Objective of the Policy Guideline**

The basic purpose of this guideline and procedure to assist the management level officers and the employees of the MRA, who perform the Know your customer (KYC) at the point of open an Account/establishment of business relationship in Brokerage house, and Customer Due Diligence (CDD) and Enhance Due Diligence (EDD) on daily basis in order to prevent the use of brokerage house for placement of illegal money, layering conversion of illegal money into white money.

Globally Regulatory Policies are more focused towards the strict role of compliance related to Anti Money Laundering (AML), Know Your Customer (KYC) and Customer Due Diligence (CDD) Laws and Regulations and particularly (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018. In this respect, SOAF of MRA Securities Limited has to be completed in all perspective by the Investors at the time of submission of an account open request. Therefore, the MRA Securities Limited is needed to know its customers/Investors as well as their Source of income in order to counter Money laundering and Terrorist Financing.

We expect to every employee to carefully understand the following guideline in order to perform their duty and continuously update themselves above the regulatory requirements.

## **Money Laundering According to Law**

As per the Section 3 of Anti-Money Laundering Act, 2010,

Offence of money laundering.—A person shall be guilty of offence of money laundering, if the person:

- (a) Acquires, converts, possesses, uses or transfers property, knowing or having reason to believe that such property is proceeds of crime;
- (b) Conceals or disguises the true nature, origin, location, disposition, movement or ownership of property, knowing or having reason to believe that such property is proceeds of crime;
- (c) holds or possesses on behalf of any other person any property knowing or having reason to believe that such property is proceeds of crime; or



(d) Participates in, associates, conspires to commit, attempts to commit, aids, abets, facilitates, or counsels the commission of the acts specified in clauses (a), (b) and (c).

Where “property” means property or assets of any description, whether corporeal or incorporeal, movable or immovable, tangible or intangible, and includes deeds and instruments evidencing title to, or interest in, such property or assets, including cash and monetary instruments, wherever located;

### **Money Laundering and Terrorist Financing (ML/TF) Definition:**

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.

### **Money Laundering (ML) Cycle:**

#### **Placement**

Placement, being the first stage is the means by which funds (Cash) derived from a criminal activity are introduced into the financial system (Banks, Brokerage house & Insurance Companies etc)

#### **Layering**

The aim of the second stage is to disguise the transaction through a succession of complex financial transactions i.e. conversion into shares, bonds, income fund units with the purpose of erasing as quickly as possible all links with its unlawful origin.

#### **Integration**

Complex integration schemes then place the laundered funds back into the economy through real estate, business assets, securities and equities, in such a way that they re-enter the financial system appearing as normal business funds that have been legitimately earned.

### **Role of Brokerage House in combating ML Activity**

Following procedures and guidelines of Brokerage House developed to combat Money Laundering

- Face to Face interaction with proposed customer
- Proper verification of new Customers identification, Contact details and their Source of income.
- Retention of transaction records.
- Monitoring of trading activity



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- Monitoring of delivery channels (Payment & Receipt)
- Identification and reporting of Suspicious Transactions to Regulatory bodies (SECP and FMU under (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ).

## **Role of Brokerage House in combating TF Activity**

Following procedures and guidelines of Brokerage House developed to combat Terrorist Financing

- Proper verification of new Customers identification, Contact details and their Source of income.
- Retention of Receipt and Payment records.
- Monitoring of Receipt and Payment modes and source
- Restriction of Cash payment to account holders
- Restriction to issue third party cheques from client account
- Restriction to accept third party cheques in client account
- Identification and reporting of Currency Transactions Report if cash payment received more PKR 2 mn or more than to Regulatory bodies (SECP and FMU under (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018).

## **Verification of Customer Identity/Know Your Customers KYC**

It is most essential and first step before processing the Account open application that designated staff member of brokerage house must verify the customer identity and it's provided details. A Well knows customer for the broker reduces the risk of transfer of illegal money from one place to another place or may take the advantage of brokerage house to launder its money in order to hide illegal source of business.

It is the requirements of the current regulatory frame work to verify the customer identity at first point of interaction with broker. In this context, MRA required its designated staff members to verify the customer identify, gather sufficient information/documents as Annexure I regarding its identity and source of income before processing any account open application at their end regardless of any customer type.

## **How to verify customer Identity and Beneficial owner**

Seek true evidence of customer identity and its source of income regardless of its customer type such as individual customers, Private companies, listed companies/ corporations.



## Customer Identity

- Seek valid and clear copies of documents according to type of client as appended in Annexure I , also seek same details for authorize person identification and Beneficial owner identification
- Verify the CNIC copy of Clients/Authorize person through original CNIC of respective person
- Seek valid information about the mailing address and permanent address
- Verify the mailing address or permanent address through copy of utility bill or NTN Certificate
- Cell number is mandatory for local investors while email address mandatory for foreign investors.
- NTN number must be verified by FBR Web
- Bank details of Client verified through first presented cheque and bank verification details
- Nominee must be verified through valid Copy of CNIC and relationship with main Account holder

## Simplified Due Diligence “SDD”

Compliance section should obtain identification documents and information of main account holder and beneficial ownership

Simplified Due Diligence shall be conducted after assigning lower risk category as per Commission guidelines after assessing provided information and documents by the account holder.

If necessary, further information shall be obtain for satisfaction and verification purpose

SDD shall not be conducted if risk factor is high due to any reason identified during identification and verification. SDD shall not be conducted if there is any suspicion of ML/TF.

Where SDD shall be performed, compliance officer should document the reasons behind such decision and documents available for commission’s assessment

## Customer Due Diligence “CDD”

MRA should take steps to identify the Customer identity and ultimate beneficial ownership behind the account holder and obtain all required documents and information in this respect.MRA shall not open or keep anonymous accounts or account on fictitious names in brokerage house.

MRA conduct Customer Due Diligence to identify and verify customers including beneficial owners, understanding the intended nature and purpose of the business relationship, ownership and control structure of the customer.



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MRA also required identifying and verifying the identity of any person that is acting on behalf of the customer (“Authorized Person”). CDD should be followed as same as followed for the main account holder/beneficial owner. Copy of authorization document and all other relevant documents should be maintained all the time with Account Open Form.

MRA should conduct ongoing due diligence on the business relationship and scrutinize transactions undertaken in customer account and ensure that transactions being conducted are consistent with the MRA’s knowledge .MRA shall conduct CDD when there is a doubt of ML/TF. MRA shall seek identity and verification of the customer and beneficial ownership and file a suspicious Transaction Reporting (“STR”) with the FMU in accordance with the requirements under the law if customer fails to justify the reason of transactions and financial evidence

MRA also performed CDD measures in relations to customers that are legal persons or legal arrangements. Identification and verification of natural person behind the legal person, nature of business of legal person and ownership should be performed and control structure should be obtained. If unable to obtain information/documents of natural person, obtain identified and verified documents of executive body or similar position.

Where, identification documents and information are not satisfactory, said account request should not be processed in the system and terminate the relationship.

Government entities accounts shall not be opened in the personal names of the government officials and account which is to be operated by an officer of the Federal or Provincial or Local Government in his/her official capacity, shall be opened only on availability of a special resolution or authority from the concerned administrative department or ministry duly endorsed by the Ministry of Finance or Finance Department/Division of the concerned Government.

## **Existing Customer Due Diligence**

If CDD of an existing customer is found unsatisfactory, the relationship should be treated as high risk and reporting of suspicious transaction be considered in accordance with regulation or may terminate business relationship.

## **No Simplified Due Diligence for High-Risk circumstances**

MRA should not adopt simplified due diligence measure where the ML/TF risks are high.

## **Enhance Due Diligence (EDD)**

Compliance officer must adopt EDD procedure and measures for the high risk potential customers identified during the CDD measures.



## ML/TF Threats and EDD

CO should conduct due diligence of customer who belongs to high risk jurisdiction in Pakistan (KPK, Balochistan and Southern Punjab), Afghan refugees and person belongs to Non-FATF high risk jurisdictions but ML/TF threats are also not limited to the below mention circumstances.

1. Customer/natural person belongs to countries where non-FATF compliant with anti-money laundering regulations according to FATF
2. Corporate body, partnerships, associations and legal arrangements including non-Governmental organization or not-for-profit organization which receive donations
3. Legal persons or arrangements with complex ownership structures

## When Enhanced Due Diligence is needed

- Customer resident of High Risk jurisdiction (within and Outside Pakistan)
- Customer identified as PEP and his/her relatives
- Customer Identified as High Net worth Individual
- Customer Identified as Non-Resident
- Customer identified as Foreign national
- Customer involves in Cash dealing and Cash Intensive Business
- Customer involves in Import Export Business
- Customer involves in dealing of High Value items
- Beneficial owner identified other than Account holder
- Customer identified as senior level Govt Service holder
- Legal Persons and Arrangement Accounts (Beneficial owner and Directors and Major Shareholders)
- Customer's income level does not match with his occupation
- Customer identified as Designated non-Financial Businesses and Professions (DNFBPs) under updated NRA 2019
- Complex structure of ownership of legal person
- Legal person receives donations

## How to Conduct EDD

- Employ a Risk-Based Approach for High Risk Customers
- Obtain Additional Identifying Information
- Update information timely
- Analyze the Source of income / Ultimate Beneficial Ownership
- Obtain information of Ultimate Beneficial Ownership of legal Persons
- Obtain information about complex structuring and identify the ultimate beneficial owner of the legal Person
- Ongoing Transactions Monitoring
- Reporting of STR



## **Politically Exposed Person (PEP):**

A Politically Exposed Person (PEP) is defined by the Financial Action Task Force (FATF) as an individual who is, or has been entrusted with a prominent public function. Due to their position and influence, it is recognized that many PEPs are in positions that potentially can be abused for the purpose of committing money laundering (ML) offences and related predicate offences, including corruption, bribery, and conducting activity related to terrorist financing (TF). The potential risks associated with PEPs justify the application of additional anti-money laundering/counter-terrorist financing (AML/CFT) preventative measures with respect to business relationships with PEPs.

## **Politically Exposed Persons Types**

The difference between foreign and domestic PEPs may be relevant for firms making specific risk assessments. To help clients gain a holistic view of potential risk. In the first instance PEPs are classified at a high level in the following categories:

### **Foreign PEPs**

Individuals who are, or have been entrusted with prominent public functions by a foreign country, for example heads of state or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

### **Domestic PEPs**

Individuals who are, or have been entrusted domestically with prominent public functions, for example heads of state or of government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

### **International organization PEPs**

Persons who are, or have been entrusted with a prominent function by an international organization, refers to members of senior management or individuals who have been entrusted with equivalent functions i.e. directors, deputy directors, and members of the board or equivalent functions.

### **Family members of PEP**

Individuals who are related to a PEP either directly (consanguinity) or through marriage or similar (civil) forms of partnership.

### **Close associates of PEP**

Individuals who are closely connected to PEP, either socially or professionally.



## **Designated non-Financial Businesses and Professions (DNFBPs)**

Govt of Pakistan highlighted the Designated Non-Financial Businesses and Professions (DNFBPs) under FATF Recommendations in Updated NRA 2019 and categorized them as HIGH RISK for being abused by criminals and terrorists for the purposes of money laundering (ML) and terrorist financing (TF). DNFBP details are following. Casinos owners, real estate agents/dealers, precious metal/precious stone dealers, lawyers, notaries, other independent professionals, accountants and Trust company service providers.

Therefore, Compliance officer should categorize above mention occupation holders in High Risk Category and perform EDD.

## **Screening of New Customers/ Joint Holders/Nominees/ Authorize Persons, Board of directors and Trustees**

It is responsibility of the compliance department and authorizes office to screen the new customers / Joint Holders/Nominees/ Authorize Persons, Board of directors and Trustees (CNIC No, Passport No) in proscribe person data base maintained in back office before initiating the account open request and attach the screening report with Account open form after checking of compliance officer.

### **How to Screen New customer:**

1. Update NACTA Proscribed person list, NATCA Proscribed Entity List and UN proscribe and Entity list in back office data base
2. Insert the CNIC no or passport no in search tab
3. Generate and print report and attach with SAOF

This procedure should be followed for all new customers / Joint Holders/Nominees/ Authorize Persons, Board of directors and Trustees individually.

CO checks and signs the screen report and initiates the account open request.

### **Client identified in Proscribe Person List**

If new customers / Joint Holders/Nominees/ Authorize Persons, Board of directors and Trustees match with the proscribe person list, CO should take following steps.

1. Reject the account open request
2. Report to SECP
3. Report to NACTA
4. Report to MOFA in case match found with UN Proscribed person or entity list



## **Identification of Afghan Refugees**

Large number of afghan refugees is settled in KPK and Balochistan (High Risk Jurisdiction) and moves from Pakistan to Afghanistan. It is important to identify the customer identity particularly belongs to KPK and Balochistan. Customer belongs to KPK and Balochistan pose signification threat of ML/TF. Therefore, EDD is required for customer belongs to KPK and Balochistan.

## **Obtain Senior Management approval prior to Account Open of PEPs and High Risk Customers**

Compliance officer shall obtain Senior Management approval to establish business relationships with High Risk Customers identified during CDD/EDD and politically exposed persons (domestic and Foreign).

## **Completion of Account Opening**

It is mandatory for all potential account holders/clients to complete SAOF and signatures on all required pages as per CNIC or as per Bank verification page and provide the all necessary details and documentary evidence of identity and financial information. Blank information columns or not applicable must be cross.

## **Completion of Account Opening Formalities and Authorization**

No account shall be opened until Know Your Customer forms/CDD have been completed in all manners and all necessary documents as per annexure I have been obtained/received and examined to assure that they are valid.

## **Risk Assessment**

### **Identification of Customers, Assessment And Understanding Of Risk:**

MRA shall understand, identify and assess the inherent ML/TF risks posed by its:

- customer base;
- products and services offered;
- delivery channels;
- the jurisdictions within which it or its Customers do business; and

### **Risk Category**

MRA shall measure MT/TF risks using a number of risk categories while applying various factors to assess the extent of risk for each category for determining the overall risk classification, such as



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- High
- Medium
- Low

MRA may follow the Probability and Likelihood Risk Rating Matrix as defined in the SECP Guideline for AML/CFT Regulations; however, it shall make their own determination as to the risk weights to individual risk factors or combination of risk factor taking into consideration the relevance for different risk factors in the context of a particular Customer relationship.

MRA shall assess and analyze as a combination of the likelihood that the risk shall occur and the impact of cost or damages if the risk occur. The impact of cost or damage may consist of:

- Financial loss to the Securities Broker from the crime;
- Monetary penalty from regulatory authorities; and
- Reputational damages to the business or the entity itself.

MRA shall analyze and identify the likelihood that these types or categories of risk shall 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 not possible.

MRA should update its risk assessment every 6 month taking into account or defined by the SECP.

- new products are offered;
- new markets are entered;
- high risk Customers open or close their account; or
- the products, services, policies and procedures are changed.

MRA shall have appropriate mechanism to provide risk assessment information to the Commission if required.

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

The MRA shall describe all types or categories of Customers that it provide business to and make an estimate of the likelihood that these types or category of Customers may misuse the Securities Broker for ML or TF, and the consequent impact if indeed occurs. Risk Factor that may be relevant when considering the risk associated with a Customer or a Customer's beneficial owner's business includes

The business relationship is conducted in unusual circumstances (e.g. significant unexplained geographic distance between the Securities Broker and the Customer);



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- Non-resident Customers;
- Legal persons or arrangements receives donations;
- High Net worth Individuals
- Companies that have nominee shareholders;
- Private Limited Companies (NRA 2019)
- Business that is cash-intensive;
- Real estate Dealers
- Dealers in precious metal and stones/ Jewelers
- Lawyers/notaries
- 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;
- Politically Exposed Persons and their relatives ;
- Shell companies, especially in cases where there is foreign ownership which is spread across jurisdictions;
- Trusts and other legal arrangements which enable a separation of legal ownership and beneficial ownership of assets; and requested/Applied quantum of business do not match with the profile/particulars of client.
- Customer belongs to high risk Jurisdictions identified in updated NRA 2019 (KPK, Baluchistan South Punjab, Afghan Refugees and Afghan nationalists etc)
- Customer belongs to high risk jurisdiction identified by FATF

## **Country or Geographic Risk Factor:**

Due to location of a Customer, the origin of a destination of transactions of the Customer, business activities of the Securities Broker itself, its location and location of its geographical units, Country or Geographical Risk may arise. Country or Geographical risk combined with other risk categories provides useful information on potential exposure to ML/TF. MRA may indicate High Risk to its Customers based on following factors:

- 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;
- Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations;
- Countries identified by credible sources as having significant levels of corruption or other criminal activity; and
- Countries or geographic areas identified by credible sources as providing funding or support for terrorist activities, or that have designated terrorist organizations operating within their country
- High Risk Jurisdictions within and outside Pakistan.

## **Product, Service, Transaction or Delivery Channel Risk Factor:**



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MRA taking into account the potential risks arising from the products, services, and transactions that it offers to its Customers and the way these products and services are delivered, shall consider the following factors:

- Anonymous transactions (which may include cash);
- Non-face-to-face business relationships or transactions;
- Payments received from unknown or un-associated third parties;
- International transactions, or involve high volumes of currency (or currency equivalent) transactions;
- New or innovative products or services that are not provided directly by the Securities Broker, but are provided through channels of the institution;
- Products that involve large payment or receipt in cash; and
- One-off transactions.

MRA does not allow any customer to transfer fund through Wire transfers. All account holders regardless of their residential status receive and Payment fund through local banks only.

## **Low Risk Classification Factor:**

### **Customer risk factors:**

MRA shall rate a Customer as Low Risk and justify in writing who satisfies the requirements under regulation 11 (2) (a) and (b) of the SECP AML/CFT Regulations as under:

Regulated entities and banks provided they are subject to requirements to combat money laundering and terrorist financing consistent with the FATF recommendations and are supervised for compliance with those requirements;

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

Cooperative Societies under updated NRA 2019, fall in low risk category.

### **Product, service, transaction or delivery channel risk factors:**

MRA rates the product, service, transaction or delivery channel that satisfy the requirement under regulation 11(2) (g) of the SECP AML/CFT Regulations, such as the financial products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes.

## **New Products, Services and Technologies**



MRA should assess ML/TF risk that may arise in context to the development of new product and business practice, including new delivery channels, and the use of new or developing technologies for both new and pre-existing products.

MRA should undertake a risk assessment prior to use/launch of such products, services, practices and technologies and take appropriate measures to manage and mitigate the risk.

## **High Risk Jurisdictions in Pakistan:**

As per Updated National Risk Assessment (NRA) 2019, Afghans diaspora, porous border areas (KPK and Baluchistan) and south Punjab (Punjabi sectarian groups and ethnic terrorist groups) posed significant threat to our financial sector. Therefore, all the customers of MRA belong to these high risk jurisdictions shall fall under HIGH RISK category and EDD shall be required in respect of source of income and occupation.

Further, potential customers (their joint holder(s) or nominee), Legal Persons & Arrangements (Beneficial Owners, Directors and Authorize Persons) must be evaluated on the basis of Jurisdictions status under Updated NRA 2019.

## **Risk Matrix:**

MRA may use risk matrix annexed as Annexure-1 to SECP Guideline on AML/CFT Regulations as a method of assessing risk in order to identify the types or categories of Customers that are;

- in Low Risk category;
- those that carry somewhat higher risk, but still acceptable risk; and
- Those that carry a high or unacceptable risk of money laundering and terrorism financing.

## **Ongoing Monitoring of Customer under EDD**

Once the identification procedures have been completed by the compliance officer and establishment of business with the Customer, Compliance officer shall monitor the business relationship to ensure that all the executed transactions are matched with the course of the business relationship with a customer

Compliance officer develop and implement policies and procedures for ongoing monitoring and reasonable measure to ensure that documents, data or information collected during the identification process are kept up-to-date for ongoing reviews

Compliance officer should be attentive for any major changes and inconsistencies in transaction patterns and significant increase in transactions value without any significant reasons. Compliance officer shall obtain information and examine that purpose of such unusual transactions. After assessment and examination of provided information, if Compliance officer has a suspicion of ML/TF, shall have taken immediate measure to stop such activity and inform the Chief Executive Officer/Board of Directors.



Compliance officer shall not approve the business relationships with entities and/or individuals that are

- Designated under the United Nations Security Council Resolutions and adopted by the Government of Pakistan
- Black list countries identified by FATF
- Prescribed person/ Entities under the Anti Terrorism Act. 1997 (XXVII of 1997) and
- Associates/facilitators of persons mentioned in (a) (b) and (C)

## **Precautionary Measures/Controls to Mitigate the Risks:**

- Customer Identification/Documents
- Customer's Jurisdiction
- Identification of Beneficial Owner /Attorney/Authorize Person & Nominee
- Database screening for proscribed person/Entities (NACTA/UN)
- Obtained Source of Income of Account Holder /Beneficial owner
- Tax & Filing Status Screening (A/c Holder & Beneficial Owner)
- Obtained Annual Income /investment Level and match with Source of Fund
- Customer's Risk Factor
- Country / Geographic Risk Factor
- Customer's Risk Assessment
- Management's Recommendation (PEP, High Net worth Client, Corporate Client)
- Monitoring of Customers (Receipt and Payment)
- Ongoing Monitoring of Customers
- Receipt of Payment through only Local Banks
- Temporary block of Account due to non-availability of information and details
- Enhance Risk in case of update of information
- Screening of client data upon receiving of SRO from SECP, MOFA and NACTA and Reporting within three days
- Reporting of STR in case of any suspicious activity/Proscribed Person

## **Retention of Transaction Records:**

Settlement department of MRA is liable to retain records/information minimum period of five years as per Chapter III Clause 15 of the particularly (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 of all transactions of clients and provide the details in case of any query raise by compliance officer, respective client, regulatory body etc.

## **Appointment of Compliance Officer:**

Company shall appoint a management level officer as compliance officer, who shall report directly to the board of directors or to another equivalent executive position or committee;

Company shall ensure that Compliance officer and any other person appointed to assist him has timely access to all customer records and other relevant information in order to perform their duties.



## Duties and Job Description of Compliance officer

The compliance officer shall primarily be responsible for the areas including, but not limited to-

- (i) ensure effective compliance with the relevant provisions of these Regulations, the AML Act, the Anti-Money Laundering Rules, 2008, the Anti-Money Laundering Regulations, 2015 and other directions and guidelines issued under the aforementioned regulations and laws, as amended from time to time;
- (ii) ensuring that the internal policies, procedures and controls for prevention of ML/TF are approved by the board of directors of the regulated person and are effectively implemented;
- (iii) monitoring, reviewing and updating AML/CFT policies and procedures, of Company according to the newly implemented laws rules and regulations;
- (iv) providing assistance in compliance to senior management, employees, departments and branches of company;
- (v) timely submission of accurate data/ returns as required under the applicable laws;
- (vi) monitoring and timely reporting of Suspicious and Currency Transactions to FMU; and
- (vii) Reporting of Proscribed persons/Entities to SECP under SRO requirements
- (viii) such other responsibilities as the regulated person may deem necessary in order to ensure compliance with these regulations.

## Job description of Compliance Officer

Compliance officer shall perform following duties under AML/CFT 2018 Regulations.

- Ensure effective compliance with the relevant provision of regulations, particularly the AML Act 2010, Anti-Money Laundering Rules 2008, the Anti-Money Laundering Regulations, 2015 and other directions and guidelines issued under the aforementioned regulations and laws as amended from time to time
- Ensure that internal policies, procedures and controls for prevention of ML/TF are approved by the board of directors
- Monitoring, reviewing and updating AML/CFT policies, procedures and other relevant policies and procedures of brokerage house
- Providing assistance in compliance to other departments and branches of the brokerage house
- Timely submission of accurate data/.returns as required under the applicable laws
- Monitoring and timely reporting of Suspicious and Currency Transactions to Financial Monitoring Unit “FMU”
- Other responsibilities as deem necessary in order to ensure compliance with these regulations

Compliance Officer shall directly report to the Board of Directors of MRA.

## Monitoring of Trading activity and Receipt of Payment

The most important protection against ML/TF is the ability to detect suspicious transactions or suspicious behavior of investor/Client during trading hours and to take further action to prevent recurrence of such transactions. Being a front desk officer and direct interaction with Customer/Authorize Person, KATS operators are required to monitor the suspicious behavior or investors and report to the Compliance officer “CO”.



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Whereas, in order to combat with ML/TF, MRA does not authorize any staff member to collect cash from clients and clients are required to deposit only Cross cheque from their Designate bank Account in the name of MRA Securities Limited. In addition, an account Department does not authorize and permitted to issue cash payment or cheque of cash upon the request of clients from their trading accounts. Only cross cheques in the name of respective clients along CNIC number shall be issued to the clients. Further, MRA shall not accept and issue third party cheques to any clients.

Front desk officer of MRA shall be responsible to monitor the receiving cheques from clients and verify the cheques details such as title of Bank Account with trading account maintained in MRA. Front desk officer who accepts and issues cheques to the clients, are required to scene the following cheques before depositing in MRA Bank account and issue to the clients. Record of payment and receiving instrument shall be retain minimum period of five years.

## **Suspicious Transaction:**

A suspicious transaction is one for which there are reasonable grounds to suspect that the transaction is related to a money laundering offence or a terrorist activity financing offence.

## **How you and your employees/dealers shall identify suspicious transactions:**

MRA shall assess the following transactions as suspicious where a transaction is inconsistent in amount, origin, destination, or type with a Customer's know, legitimate business or personal activities; MRA shall put on enquiry if transaction is considered unusual.

Accounts officer and settlement officer also required to be alert with suspicious transaction found in trading activity and frequent Cash deposit transaction in brokerage house.

MRA shall pay particular attention to the following transactions:

- All complex transactions;
- Unusual large transactions; and
- Unusual pattern of transactions.
- Which have no apparent economic or visible lawful purpose.

## **Reporting to Compliance Officer "CO":**



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Where the enquiries conducted by the MRA do not provide a satisfactory explanation of the transactions, respective dealer/sale agent may consider that there are grounds for suspicion requiring disclosure and escalating the matter to the Compliance Officer “CO”.

The Compliance Officer shall conduct enquiries regarding complex, unusual large transaction, and unusual patterns of transactions, their background and document their results properly. He may make such transaction available to relevant authorities upon their request.

Activities which should 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:

- any unusual financial activity of the Customer in the context of the Customer’s own usual activities;
- any unusual transaction in the course of some usual financial activity;
- any unusually-linked transactions;
- any unusual method of settlement;
- any unusual or disadvantageous early redemption of an investment product;
- any unwillingness to provide the information requested
- any payment beyond to defined income limit

## **Reporting of SROs, STR/CTR and Proscribed Persons/Entities**

Compliance officer shall be responsible to report suspicious transaction and Currency transaction to FMU and SECP in order to comply with the provisions of the AML Act and rules, regulations and directives issued under for reporting suspicious transactions/currency transactions in context of ML/TF. Any concern officer does not authorize to share/disclose such information with any person/employee of the brokerage house. Such information shall be shared with FMU and SECP on bi-annual basis within seven days of close of each half year.

Compliance officer shall also responsible to scan the database of NACTA and UN proscribed Person/Entities list upon receiving of SRO from SECP (Securities & Exchange Commission of Pakistan), MOFA (Ministry of Foreign Affairs, Govt of Pakistan) and NACTA (The National Counter Terrorism Authority) and report to SECP through SECP e-services portal within 3 days of receipt of SRO and maintain the record for audit and verification purpose.

## **Beneficial Ownership of Legal Persons and Legal Arrangements**

A key task is to identify and verify beneficial ownership of legal persons and legal arrangements. It is very important to know who the beneficial owner(s) are so that MRA can make appropriate decisions about the risk categorization especially in complex ownership structure.



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In order to identify and verify the beneficial ownership structure of legal person and legal arrangement, CO should conduct due diligence and obtain information/documents regarding

1. understand the nature of the customer's business and its ownership and control structure
2. identify and verify the identity of the natural persons (whether acting alone or together)
3. where there is doubt under clause (b) as to whether the natural persons who ultimately own the legal person are the beneficial owners or where no natural persons ultimately own the legal person, identify the natural persons (if any) who ultimately control the legal person or have ultimate effective control of the legal person; and
4. where no natural persons are identified under clause (b) or (c), identify the natural persons having executive authority in the legal person, or in equivalent or similar positions

Where customer is a legal arrangement, CO should conduct due diligence and obtain information/documents regarding

1. For trust, identify and verify the identity of the settler, the trustee, the protector (if any), the beneficiaries (included every beneficiary that falls within a designated characteristic or class), and any other natural person exercising ultimate ownership, ultimate control or ultimate effective control over the trust (including through a chain of control or ownership); and
2. For other type of legal arrangements, identify and verify the identity of persons in equivalent or similar positions, as those described under clause (1)

## **Legal Person assessment and Risk Categorization:**

As per Updated National Risk Assessment (NRA) 2019, all the legal persons and arrangements are re-assessed on the basis of available information and officials' expert knowledge (nationally and internationally). Therefore, MRA categorizes the risk of legal persons in light of update NRA 2019. details is as follows.

### **• High Risk Legal Persons/ Arrangements:**

- 1) Private companies, 2) Foreign companies, 3) Domestic limited liability partnerships & 4) Foreign limited liability partnerships 5) Microfinance Banks 6) Exchange Companies 7) Central Directorate of National Savings (CDNS) 6) Real-estate builders and Developers 8)NPOs

### **• Medium Risk Legal Persons/ Arrangements:**

- 1) Companies limited by guarantee

### **• Low Risk Legal Persons/ Arrangements**

- 1) Public companies (including listed and unlisted Companies). 2) Public interest companies, 3) Public sector companies, & 4) Cooperatives 5) DFIs

## **Record-Keeping Procedures**



# MRA Securities Limited

Compliance department maintains the record of all information obtained in the context of Customer Due Diligence and Enhance Due Diligence. This includes records pertaining to enquires about complex, unusual large transactions and unusual patterns of transactions, identification data and transaction records.

It is responsible of the company to maintain all necessary records of identification documents, account opening forms, Know Your Customer forms, Verification documents, accounts files, transaction details and other relevant documents atleast 5 years after termination of the business relationship

All records and transaction details should be retained related to suspicious activity, continue investigation or litigation into ML/TF against customer until confirmation is received that the matter has been closed.

Beneficial ownership information must be maintained for at least 5 year after the date on which the legal entity is dissolved or termination of business relationship. Further all above mention documents/information records should be available to Commission, FMU and law enforcement agencies whenever required.

## **Cross border Fund transfer for non-resident/Foreign Clients:**

Cross border fund transfer poses significant threat of ML/TF. Therefore, it is MRA's policy to received and paid fund only through local Pakistani banking channels. Further, Wire Transfers are not allowed to accept from non-resident/Foreign clients but fund transfer from non-resident/foreign is not limited to only cross border fund transfer and ML/TF threat. Therefore, payment receipt from non-resident/foreign client should be accepted only through local banks.

CO should also monitor payment received from high risk jurisdiction customers within Pakistan (KPK, Balochistan and Sourthern Punjab) due to porous border and significant threat of ML/TF.

Procedure to Monitor Payment from Non-Resident/Foreign & High Risk Jurisdiction Customers

1. Every banking instrument received from Non-Resident/Foreign client must be match with available bank details
2. Every banking instrument received from Non-Resident/Foreign client must be in the name of Account Holder
3. Payment should be made in the name of account holder and drawn at local bank
4. No cash payment allowed to any client regardless of residential status

## **Tipping-off & Reporting:**

A risk exists that Customers could be unintentionally tipped off when the MRA 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.

If the Compliance Officer forms a suspicion of ML/TF while conducting CDD or ongoing CDD, it should take into account the risk of tipping-off when performing the CDD process.



# MRA Securities Limited

If the Compliance Officer reasonably believes that performing the CDD or on-going process shall tip-off the applicant/customer, it may choose not to pursue that process, and should file a STR.

The MRA shall ensure that their employees are aware of, and sensitive to, these issues when conducting CDD or ongoing CDD.

## **Employee Screening and Training:**

As part of the Securities Broker Anti Money Laundering program, all Employees are expected to be fully aware of its Anti-Money Laundering policies and procedures. Each Employee is required to read and comply with this Compliance Manual, address concerns to the Compliance Officer and sign the acknowledgement form confirming that he/she has read and understands SECP AML and CFT Policies and Procedures.

To ensure the continued adherence to SECP AML and CFT Policies and Procedures, all Employees are required to reconfirm their awareness of the contents of this Compliance Manual by signing the acknowledgement form annually, or more frequently, as required by the Compliance Officer.

All Employees are required;

- At a time specified by the Compliance officer, to undertake training programs on AML and CFT Policies and Procedures.
- To get trained in how to recognize and deal with transactions/activities which may be related to money laundering.
- To timely escalate and report the matter to the Compliance Officer.
- To get themselves acquainted with SECP AML & CFT Rules & Regulations.
- To comply with the requirements of Rules & Regulations.

It is the legitimate responsibility of the securities broker to arrange comprehensive and detailed training session for the CO and higher management and maintain record of the training sessions.

## **Designated Internal Audit Officer**

It is the responsibility of the Board of directors to appoint designated independent Internal Audit officer in MRA, who is responsible to report to B Board of directors of MRA directly.

It is also the responsibility of the internal audit officer to submit internal audit report bi-annually to the Board of directors and maintain the reports for audit and record purpose. Moreover, internal audit office may approach BODs in case of any major non-compliance identified within the MRA



# **MRA Securities Limited**

## **Bi Annually Risk Assessment and Reporting:**

Compliance officer shall assess the Risk of the MRA in respect of Product, Customer, Geography and Delivery channels and update the risk of brokerage house's Customers, Geography, Product and delivery channels and report to the Commission as required.

## **Punishment for ML/TF:**

As per the Section 3 of **Anti-Money Laundering Act, 2010**,

Whoever commits the offence of money laundering shall be punishable with rigorous imprisonment for a term which shall not be less than one year but may extend to ten years and shall also be liable to fine which may extend to one million rupees and shall also be liable to forfeiture of property involved in money laundering or property of corresponding value.

Provided that the aforesaid fine may extend to five million rupees in case of a company and every director, officer or employee of the company found guilty under this section shall also be punishable under this section.

MRA Securities Limited



# MRA Securities Limited

## Annex I

S No.	Type of Customer	Information/Documents to be Obtained
1.	Individuals	<p>A photocopy of any one of the following valid identity documents;</p> <ul style="list-style-type: none"> <li>(i) Computerized National Identity Card (CNIC) issued by NADRA.</li> <li>(ii) National Identity Card for Overseas Pakistani (NICOP) issued by NADRA.</li> <li>(iii) Pakistan Origin Card (POC) issued by NADRA.</li> <li>(iv) Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only).</li> <li>(v) Passport; having valid visa on it or any other proof of legal stay along with passport (foreign national individuals only).</li> </ul>
2.	Sole proprietorship	<ul style="list-style-type: none"> <li>(i) Photocopy of identity document as per Sr. No. 1 above of the proprietor.</li> <li>(ii) Copy of registration certificate for registered concerns.</li> <li>(iii) Copy of certificate or proof of membership of trade bodies etc, wherever applicable.</li> <li>(iv) Declaration of sole proprietorship on business letter head.</li> <li>(v) Account opening requisition on business letter head.</li> <li>(vi) Registered/ Business address.</li> </ul>
3.	Partnership	<ul style="list-style-type: none"> <li>(i) Photocopies of identity documents as per Sr. No. 1 above of all the partners and authorized signatories.</li> <li>(ii) Attested copy of 'Partnership Deed'.</li> <li>(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.</li> <li>(iv) Authority letter from all partners, in original,</li> </ul>



# MRA Securities Limited

		<p>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 Liaison Office of 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</p>



# MRA Securities Limited

		<p>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</p>
		<p>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>
8.	Agents	<p>(i) Certified copy of 'Power of Attorney' or 'Agency Agreement'.</p> <p>(ii) Photocopy of identity document as per Sr. No. 1 above of the agent and principal.</p> <p>(iii) The relevant documents/papers from Sr. No. 2 to 7, if agent or the principal is not a natural person.</p> <p>(iv) Registered/ Business address.</p>
9.	Executors and	



# MRA Securities Limited

	Administrators	(i) Photocopy of identity document as per Sr. No. 1 above of the Executor/Administrator. (ii) A certified copy of Letter of Administration or Probate. (iii) Registered address/ Business address.
10.	Minor Accounts	(i) Photocopy of Form-B, Birth Certificate or Student ID card (as appropriate). (ii) Photocopy of identity document as per Sr. No. 1 above of the guardian of the minor.

List of examples of appropriate information and/or supporting documentation required to establish source of wealth and funds is as follows (any one of the documents may be obtained):

<b>a) <u>Employment Income:</u></b> <ul style="list-style-type: none"> <li>Last month/recent pay slip;</li> <li>Annual salary and bonuses for the last couple of years;</li> <li>Confirmation from the employer of annual salary;</li> <li>Income Tax Returns/ Wealth Statement.</li> </ul>	<b>b) <u>Business Income/ Profits / Dividends</u></b> <ul style="list-style-type: none"> <li>Copy of latest audited financial statements;</li> <li>Rental statements</li> <li>Dividend statements</li> </ul>
<b>c) <u>Savings / deposits/ assets/property:</u></b> <ul style="list-style-type: none"> <li>Statement from financial institution</li> <li>Bank Statement</li> <li>Taxation returns</li> <li>Accountant's statements</li> <li>Property ownership certificate</li> <li>Share certificates</li> </ul>	<b>d) <u>Inheritance:</u></b> <ul style="list-style-type: none"> <li>Succession Certificate.</li> </ul>
<b>e) <u>Sale of Property/ Business:</u></b> <ul style="list-style-type: none"> <li>Copy of sale agreement/Title Deed</li> </ul>	<b>f) <u>Loan</u></b> <ul style="list-style-type: none"> <li>Loan agreement</li> </ul>
<b>g) <u>Gift:</u></b> <ul style="list-style-type: none"> <li>Gift Deed;</li> <li>Source of donor's wealth;</li> <li>Certified identification documents of donor.</li> </ul>	<b>h) <u>Other income sources:</u></b> <ul style="list-style-type: none"> <li>Nature of income, amount, date received and from whom along with appropriate supporting documentation.</li> <li>Where there nature of income is such that no supporting documentation is available (for eg. Agricultural Income) Bank Statement may be obtained.</li> </ul>