

## **Customer Due Diligence/ Know Your Customer (CDD/ KYC) Policy**

### **Back Ground:**

Since the last few years money laundering and regulations have been put in place across the world. For the purpose Agreements have been signed by the members of United Nations countries are bound to implement policies that discourage money laundering and monitor financial transaction that are suspicious and raise concern about financing of illegal/criminal activities.

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. Pakistan has enacted the ANTIMONEY LAUNDERING ACT 2010. Financial institutions and intermediaries are required to comply with the provisions of this Act.

In the above context, Apex capital market regulator, the Securities and Exchange Commission of Pakistan (SECP) has 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 the case of the brokerage industry, SECP being its Apex regulator and the Pakistan Stock Exchange Limited being the frontline regulator of the brokerage industry, have formulated detailed set of guidelines for brokers to help them in developing KYC and CDD policies & procedures and implementing the same.

This document has been prepared for MRA Securities Limited to follow the guidelines and instructions of Regulators and shall be implemented being a broker of Pakistan Stock Exchange limited.

### **Following key Areas has been covered:**

- 1. Customer Identification*
- 2. Risk assessment of customer*
- 3. Circumstances where Enhanced Due Diligence is required*
- 4. On-going due Diligence*
- 5. Circumstances where simplified Due Diligence can be adopted*
- 6. Compliance function*
- 7. Data retention*
- 8. Training and employee screening*

## 1. Customer Identification:

- Customer identification is very important that will protect our company from being used by corrupt and/or criminal elements. In this respect minimum documents/information as prescribed by SECP, must be obtained from customers at the time of opening of accounts. Further, any additional document/information may be obtained on case to case basis where considered necessary. The key point is that **anonymous or obviously fictitious accounts should not be opened.**
- In case a customer is acting on behalf of another person, then identity of that person shall be ascertained and relevant documents/information of that person need to be obtained also.
- For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies/organizations) additional care shall be taken to establish the ownership and control structure of such an organization and who (i.e. person(s)) actually owns the organization and who manages it. The authorization of the person(s) who represents himself/themselves as authorized signatory(is) is clearly mentioned in Account Opening Form.
- For individual customers, proper authorization shall be obtained from person authorized to act on behalf of the customer is also mentioned in SAOF.
- It shall be ensured that accounts of Institutions/organizations/corporate bodies are not opened in the individual name(s) of employee(s)/official(s). Because of sensitive nature of public sector (government) entities and risk of potential conflict of interest, these accounts shall not be opened in the individual name of any employee/official.
- Sufficient information shall be obtained to determine the expected source of income.
- It must be ensured that all receipts and payments to the customers above the prescribed threshold (i.e. Rs. 25,000/-) are made through cross cheques, bank drafts, pay orders or other crossed banking instruments. For exceptional circumstances where it shall become necessary to accept cash from a customer, reporting of such instances with rationale should be inform to the authority.
- Physical presence of the customer at the time of opening of account is necessary.

## **2. Risk Assessment of Customer:**

- Risk assessment must be performed of all the existing and prospective customers on the basis of information obtained regarding their identity, nature of income, source of funding, location etc. and based on the results of such assessment, categorize customers among high risk, medium risk and low risk customers.

*Following are general broad outline of factors that will categorize the customers into high risk category:*

- Non-resident customers;
- Legal persons or arrangements including non-governmental organizations; (NGOs)/not-for-profit organizations (NPOs) and trusts/charities;
- Customers belonging to countries where CDD / KYC and anti-money laundering regulations are lenient or if funds originate or go to those countries;
- Customers who are dealing in Cash present a higher risk of money laundering.
- High net worth customers with no clearly identifiable source of income;
- There is reason to believe that the customer has been refused brokerage services by another brokerage house;
- Non-face-to-face / on-line customers;
- Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations;
- Politically Exposed Persons (PEPs) or customers holding public or high profile positions  
Politically Exposed Persons (PEPs) are individuals, such as senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Business relationships with family members or close associates of PEPs involve reputational risks similar to those with PEPs themselves.
- Self assessment shall be conducted for money laundering and terrorist financing risk, identifying and documenting the key risks presented by virtue of company's business model, types of customers and geographical placement on case to case basis.

### **3. Enhanced Due Diligence:**

- Once a customer has been categorized as HIGH RISK, it is necessary to focus activities and transactions of HIGH RISK customers and any unusual transactions shall be reported as suspicious transaction to the authority.
- When dealing with high-risk customers, including Politically Exposed Persons (PEP's), senior management' approval shall be obtained to establish business relationships with such customers. The same shall also apply in case of an existing customer which will be classified as high-risk pursuant to these policies or which will be subsequently classified as a result of ongoing due diligence. Further, reasonable measures shall be taken to establish the source of wealth and source of funds.
- If it will be not possible to comply with the above requirements, account shall not be opened or business relationship shall be terminated, as the case may be and suspicious transaction report shall be submitted.
- When it will be not possible to identify and verify the identity of the customer and the beneficial owner or will be not possible to obtain adequate information regarding the purpose and intended nature of the customer relationship, account shall not be opened.
- It shall be ensured that the customers' records are updated at regular intervals and sufficient information is obtained regarding any significant change in the customers' profiles.

### **4. On-Going Due Diligence:**

- It shall be ensured 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 company's knowledge of the customer, its business and risk profile, historical pattern of transactions and the pattern and source of funding of the account.
- It shall be ensured that the customers' records are updated at regular intervals and sufficient information is obtained regarding any significant change in the customers' profiles.

## **5. Simplified Due Diligence:**

*CDD measures shall be simplified or reduced in the following circumstances:*

- Risk of money laundering or terrorist financing is lower
- Information on the identity of the customer and the beneficial owner of a customer is publicly available
- Adequate checks and controls exist

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

## **6. Compliance Function:**

- A compliance function shall be established with suitable Human Resource and Management Information System [MIS] reporting capabilities, enabling it to effectively monitor the customers' transactions and make timely reports.
- The Head of Compliance function shall have skills and experience necessary for satisfactory performance of functions assigned.
- Head of compliance shall be independent and report directly to the CEO of MRA Securities Limited and the Board of Directors.

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

## **7. Data Retention:**

- It shall be required to 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.

## **8. Training and Employee Screening:**

- Appropriate on-going employee training/updating program and knowledge refreshment shall be arranged to ensure that the employees understand their duties and are able to perform the same on a satisfactory level.
- Staff shall be hired with extra care and all possible screening measures shall be taken including independent inquiries, information from previous employers/colleagues etc. Further, screening process shall be an on-going exercise and shall be applied consistently to ensure that employees, particularly those working at sensitive positions, meet and maintain high standards of integrity and professionalism.
- Any information concerning customers and their transactions shall be provided to the concern authority of exchanges and Securities Exchange Commission of Pakistan as and when required.
- All requirements of Anti Money Laundering Act, 2010 as applicable, 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 shall be complied.
- A checklist has been developed and annexed to these policies and procedures.
- Details of necessary documents, information and procedures required to be obtained/followed have been incorporated therein. Further, necessary documents/information required has also mentioned in relevant Standard Account Opening Forms [SAOF] and are not reproduced herein to avoid repetition.
- All relevant laws/regulations/recommendations/guidelines/directives of relevant authorities (e.g. SECP, FATF, Exchange etc.) are available separately.



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## FOR OFFICE USE ONLY KYC / CDD Checklist

Annexure " D "

Date	Account Title	Account / UIN #
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### SECTION A

Minimum Information / Documents to be provided by Investor			
	Pls tick	Pls tick	Pls tick
1. Individuals /Sole Propriet or ships		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	Li st 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/ Tru st 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		Li st 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 <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 <b>NO</b> , go to section G.3 or G.4, otherwise go to <b>Section C</b>		

**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 (NBFI)		
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**

<b>Investor Risk Profile</b>		
	<b>Risk Classification</b>	<b>KYC Requirements</b>
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.

<b>CONFIRMATION</b> 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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