



SHAJARPAK SECURITIES (PRIVATE) LIMITED

*KNOW YOUR CLIENT (KYC) & CUSTOMER DUE DILIGENCE (CDD)
POLICY*

1. INTRODUCTION

- 1.1 Shajarpak Securities (Private) Limited (SSPL) has formulated a Know Your Customer / Customer Due Diligence policy, hereinafter referred to as “KYC/CDD policy”, based on the criteria/ guidelines specified in the Securities & Exchange Commission of Pakistan (SECP) Circular No. 12 of 2009 dated April 28, 2009.
- 1.2 The KYC/ CDD policy has been approved by the Board of SSPL in the meeting held on February 11, 2014. In the said meeting, the Board has authorized the CEO to approve any subsequent amendments or modifications associated with this policy.
- 1.3 This policy defines different types of customers, their minimum required information & documents along with the characteristics of High Risk Clients, who pose greater than average risk of money laundering activities. It further explains how to ensure the identity of the clients, who initiate relationship with SSPL and how to maintain and update the KYC/CDD measures.
- 1.4 For better services to our customers, SSPL has also developed and put in place a “KYC /CDD Checklist Form” which classifies the categories of KYC/ CDD for both Individual and Institutional clients. Our team is required to ensure that the customer’s information shall be maintained by duly completing a KYC/CDD Form.
- 1.5 The KYC/CDD Form is attached as Appendix A and forms an integral part of KYC/CDD policy.

1.6 History

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

In the above context, Apex capital market regulator, the SECP 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 brokerage industry, the Securities and Exchange Commission of Pakistan, being its Apex regulator and the Stock Exchange, being the frontline regulator of the brokerage industry, have formulated detailed set of guidelines for brokers to help them in developing KYC and CDD and we will be using the same guidelines to formulate our KYC/CDD policy.

2. Policy Outline

This document will help design effective and practical KYC / CDD policies and procedures that are easy to understand, implement and monitor.

It is important to highlight that money laundering and financing of criminal activities is a very serious offense and we must always remain vigilant that our good offices are not used for any such activity. This is important for the growth and development of our company and the capital markets of Pakistan.

Key Areas that the KYC/CDD Policy should cover include:

- 2.1 Customer Identification**
- 2.2 Risk Assessment of Customer**
- 2.3 Circumstances where Enhanced Due Diligence is required**
- 2.4 On going due diligence**
- 2.5 Circumstances where simplified due diligence can be adopted**
- 2.6 Compliance function**
- 2.7 Data Retention**
- 2.8 Training and employee screening**

We will now discuss the above key areas in detail

3. Customer Identification

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 (Annexure A).

In addition to the prescribed documents any other document from the customer should be asked for and documented if we believe it will help in establishing the true identity of the customer and the real controlling

person behind the account. The key point to ensure is that we must not open anonymous or obviously fictitious accounts.

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 organization and who (i.e. person(s)) actually owns the organization and who manages it.

Furthermore, we have to make sure and be careful that accounts of Institutions/ organizations / corporate bodies are not opened in the name of employee(s)/official(s). Because of sensitive nature of public sector (government) entities and risk of potential conflict of interest, it is critical for us to ensure that accounts of Govt. Institutions are not opened in the individual name of any employee/official. Any such account, which is to be operated by an 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 Provincial or Local Government.

When an individual or an organization/institution opens brokerage account with us, it is important to find out and document in broad terms what does the customer intend to do. 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 scrips or any scrip; 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 you 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 us to understand whether the customer should be classified as a low risk or a high risk customer from the KYC/CDD perspective. For example, a 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 sources would be in high risk

category requiring more careful identification procedure and close monitoring of account operations.

As is already the practice all receipts/payments above Rs25,000/= are to be made through cross – cheques, bank drafts, payorders 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.

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 broker does not have a branch/office, more strong identity verification procedures should be applied. These include verification by a reliable third party, reference of an existing customer of the broker, confirmation 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 brokers consider whether that foreign jurisdiction is following the Financial Action Task Force (FATF) recommendations.

4. Risk Assessment of Customer

This risk assessment 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 client. It should 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, Moderate and Low Risk categories.

HIGH RISK CATEGORY

This includes:

- i. Non-resident customers;
- ii. Legal persons or arrangements including non-governmental organizations; (NGOs)/ not-for-profit organizations (NPOs) and trusts / charities;
- iii. Customers belonging to countries where CDD/KYC and anti-money laundering regulations are lax 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 with links to offshore tax havens;
- vi. High net worth customers 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; 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 associates. 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 definition is not intended to cover middle ranking / junior officials in above noted categories. However, prudence requires that we be careful.

5. Circumstances where Enhanced Due Diligence is required

Once a customer has been categorized as HIGH RISK, it is necessary to have Enhanced Due Diligence (EDD) when dealing with such a customer. Policies and procedures should be put in place so that activities and transactions of HIGH RISK customers are monitored and any unusual transactions are reported in a SUSPICIOUS TRANSACTION REPORT (STR).

In the above context, when dealing with high-risk customers, including Politically Exposed Persons (PEP's) CEO of SSPL has to approve the opening of brokerage account. In the case of HIGH RISK CATEGORY customers, it is all the more important for us to determine the source of wealth and funds invested.

It should be noted that this exercise of categorizing customers in LOW, MEDIUM, HIGH RISK category applies to all customers, including existing customers, Thus, once the above exercise is carried out, if an existing customer falls into the HIGH RISK CATEGORY, the above requirements for monitoring and reporting suspicious transactions and senior management approval for continuing with the customer will also apply to such customer (s)

If the above requirements are not fulfilled than we cannot 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 broker is unable to fulfill the above mentioned requirements, such account should be closed and a Suspicious Transaction Report filed.

Similarly, brokerage account should not be opened if the broker 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.

6. Ongoing Due Diligence

It is important for us to understand 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 our good offices against criminal transactions we need to be vigilant at all times, and keep monitoring transactions of the customers to ensure that the transactions executed in any particular account are within our understanding in terms 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 that is significantly different from the average historical transaction size, we need to be 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 will likely require further investigation.

In the above context, we should keep all customer records updated and have a policy of assessing any change in customer profile on regular basis, which change should be documented and sufficient information should be obtained regarding such change.

7. Circumstances where simplified due diligence can be adopted

It is acceptable 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 controls exist

Accordingly, 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



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.

8. Compliance function

In order to achieve this objective two key elements will have to be instituted at the SSPL's end: (i) Compliance Function with appropriate human resource (ii) MIS reporting capability

In this context, the person responsible for compliance will be designated and he/she should have sufficient skills and experience to effectively perform the compliance function and will report to the Board of Directors.

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 violations / non-compliance identified which has to be reported to the Board of Directors.

9. Data Retention

All data relating to KYC/CDD guidelines & procedures will be maintained for a period of five years, including identity of the customers.

10. Training and employee screening

There will be on-going training of our employees to ensure that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily.

We will ensure that we have appropriate screening procedures including reference checks when hiring and to ensure high standards of staff in terms of honesty, integrity, ethics and professionalism. We also retain the right to have police and other law enforcement agencies for screening checks of the employees hired if and when desired by the management.

Encl:

ANNEXURE A – KYC / CDD CHECKLIST FOR COMPANY'S USE