

KYC/CDD Policy

1. THE KYC/CDD Policy Outline

This document will help S.D Mirza Securities (Pvt) Ltd. and its employees to 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 S.D Mirza Securities (Pvt) Ltd. must always remain vigilant that their good offices are not used for any such activity. This is important for the growth and development of the company and the securities industry in Pakistan.

Key areas that the KYC/CDD policy should cover 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

S.D Mirza Securities (Pvt) Ltd. should also consider International best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF) while they develop their KYC/CDD policy

2. CUSTOMER IDENTIFICATION

2.1 It is a basic tenet of any business to know who its customers are. This helps you to protect yourself from being used by unscrupulous and/or criminal elements. In this regard, S.D Mirza Securities (Pvt) Ltd. have to 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, S.D Mirza Securities (Pvt) Ltd. would obtain any other document from the account opener if they 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 S.D Mirza Securities (Pvt) Ltd. must not open anonymous or obviously fictitious accounts.

2.2 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 needs to be obtained also.

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

2.4 S.D Mirza Securities (Pvt) Ltd. 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 brokers and their representatives 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.

2.5 When an individual or an organization/institution opens brokerage account with S.D Mirza Securities (Pvt) Ltd., 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 S.D Mirza Securities (Pvt) Ltd. 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.

In the above context, S.D Mirza Securities (Pvt) Ltd. have to carefully determine the source of funding especially if the customer is expected to receive/send funds in foreign currency.

2.6 As is already the practice and part of PSE regulations, S.D Mirza Securities (Pvt) Ltd. must follow the regulations that the all receipts/payments above Rs25,000/= are 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.

2.7 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 company, 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 broker consider whether that foreign jurisdiction is following the Financial Action Task Force (FATF) recommendations. The list of jurisdictions following FATF recommendations is available.

3. RISK ASSESSMENT

3.1 We have discussed assessment and categorization of customers as low, medium or high risk profile above. This risk assessment by S.D Mirza Securities (Pvt) Ltd. 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 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 RISK CATEGORY:

- 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 antimoney 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

3.2 "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 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 brokers to be careful.

3.3 In general, S.D Mirza Securities (Pvt) Ltd. should 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

3.4 S.D Mirza Securities (Pvt) Ltd. need to assess the risk of potential money laundering / terrorism financing and the guidelines and this commentary will help in documenting such risk if the company assesses that it exists.

4. ENHANCED DUE DILIGENCE

4.1 Once a customer has been categorized as HIGH RISK, it is necessary for the company 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).

4.2 In the above context, when dealing with high-risk customers, including Politically Exposed Persons (PEP's) the nominee director/senior management of the company, has to approve the opening of brokerage account. In the case of HIGH RISK CATEGORY customers, it is all the more important for brokers 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 company has carried out the above exercise, 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)

4.3 If the above requirements can not be fulfilled by the company then they should not open the brokerage account of such person(s) and file a Suspicious Transaction Report (STR). In case an existing customer falls into HIGH RISK CATEGORY and the company is unable to fulfill the above mentioned requirements, such account should be closed and a Suspicious Transaction Report filed.

4.4. Similarly, brokerage account should not be opened if the company 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.

5. ON-GOING DUE DILIGENCE

5.1 It is important for S.D Mirza Securities (Pvt) Ltd. and its agents 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 their good offices against criminal transactions brokers need to be vigilant at all the times, and keep monitoring transactions of their customers to ensure that the transactions executed in any particular account are within the understanding of the Broker 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, 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 broker.

5.2 In the above context, S.D Mirza Securities (Pvt) Ltd. 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.

6. SIMPLIFIED DUE DELIGENCE

6.1 it is acceptable for S.D Mirza Securities (Pvt) Ltd. 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

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

- a) 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
- b) Public companies that are subject to regulatory disclosure requirements
- c) Government administrations or enterprises

6.3 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.

7. COMPLIANCE FUNCTION

7. It is important that a system be developed at S.D Mirza Securities (Pvt) Ltd. to implement these guidelines. This will help the company to monitor customer transactions and report any suspicious

activity in a timely manner. In order to achieve this objective two key elements have to be instituted at the company's end: (i) Compliance Function with suitable human resource (ii) MIS reporting capability.

7.2 In this context, Mr. Omar Khalil Malik is designated to effectively perform the compliance function. He should ensure compliance and should report to the Board of Directors.

7.3 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 violations / 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 KSE as and when required.

8. DATA RETENTION

All data relating to KYC/CDD guidelines & procedures have to be maintained for a minimum of five years, including identity of the customer(s), account files and correspondence exchanged with the customer(s).

9. TRAINING

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

10. SCREENING

In order to ensure, for their own safety, that unscrupulous elements do not become employees/agents, S.D Mirza Securities (Pvt) Ltd. should have appropriate screening procedures when hiring and also on an ongoing basis to ensure high standards of staff in terms of honesty, integrity, ethics and professionalism. This is important not just for the sake of brokers' own safety and reputation but the reputation of the Capital Market.

13. It should be noted that S.D Mirza Securities (Pvt) Ltd. (like other financial institutions) are bound by the requirements of ANTI MONEY LAUNDERING ACT 2010, as applicable to them and must comply with the provisions of this Act. This includes filing of suspicious Transactions Reports and complying with any directives, circulars, guidelines with regard to KYC/CDD/Anti-Money Laundering/Terrorist Financing, issued by the Federal Government. This also means that brokers have to provide information concerning their customers and their transactions to the Stock Exchange, Financial Monitoring Unit and the SECP.