

Anti-Money Laundering/ Countering Financing of Terrorism (AML/CFT) Policy, Procedures and Controls

A. GENERAL PRINCIPLES:

1. DEFINITION OF MONEY LAUNDERING AND TERRORIST FINANCING:

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.

2. PURPOSE AND SCOPE OF AML AND CFT REGIME:

2.1. An effective Anti-Money Laundering and Countering the Financing of Terrorism (“AML/CFT”) regime requires financial institutions to adopt and effectively implement appropriate ML and TF control processes and procedures, not only as a principle of good governance but also as an essential tool to avoid involvement in ML and TF. AML and CFT Regime is governed under Anti-Money Laundering Act, 2010 (“AML Act”), Anti-Money Laundering Rules, 2008 (“AML Rules”) made under the Anti-Money Laundering Ordinance, 2007 (“AML Ordinance”), Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 (“SECP AML/CFT Regulations”) made under the Securities and Exchange Commission of Pakistan Act, 1997 (“SECP Act”), upon recommendation of Financial Monitoring Unit (“FMU”) established under AML Act and Guidelines on SECP AML/CFT Regulations issued by SECP in September 2018.

3. SECP GUIDELINES ON AML/CFT REGULATIONS:

3.1. The Guidelines are applicable to all Regulated Persons (“RPs”) including First Capital Equities Limited (“FCEL”) as defined under the SECP AML/CFT Regulations conducting relevant financial business and designed to assist RPs in complying with the Regulations. It supplements the Regulations and the AML/CFT regime by clarifying and explaining the general requirements of the legislation to help RPs in applying national AML/CFT measures, developing an effective AML/CFT risk assessment and compliance framework suitable to their business, and in particular, in detecting and reporting suspicious activities. The Guidelines are based on Pakistan AML/CFT legislation and

reflect, so far as applicable, the 40 Recommendations and guidance papers issued by the Financial Action Task Force (“FATF”). Moreover, any other relevant rules issued by regulator will also be a part of this policy.

4. POLICY, PROCEDURES AND CONTROLS:

- 4.1. As required under clause 4 (a) of the SECP AML/CFT Regulations, FCEL is implementing policies, procedures and controls contained in this policy document with the approval of its Board of Directors on 04 October 2018 to effectively manage and mitigate the risk that are identified in the risk assessment of ML/TF or notified to it by the Commission;
- 4.2. FCEL will monitor the implementation of these policies, procedures and controls and enhance them if necessary;
- 4.3. FCEL will perform enhanced measures where higher risks are identified, to effectively manage and mitigate those higher risks; and have an independent audit function to test the system.
- 4.4. The policies, procedures and controls shall contain a clear description for employees of their obligations and instructions as well as guidance on how to keep the activity of the reporting entity in compliance with the Regulations. There should be internal procedures for detecting, monitoring and reporting suspicious transactions.

5. APPOINTMENT OF COMPLIANCE OFFICER AND HIS ROLE:

- 5.1. FCEL is required to appoint a management level officer as compliance officer (“CO”), who shall report directly, and periodically to the Audit Committee & Board of Directors (“Board”) or to another equivalent executive position or committee. The CO must be a person who is fit and proper to assume the role and who:
 - has sufficient skills and experience to develop and maintain systems and controls (including documented policies and procedures);
 - has sufficient resources, including time and support staff;
 - has access to all information necessary to perform the AML/CFT compliance function;
 - ensure regular audit of the AML/CFT program;
 - maintain various logs, as necessary, which should include logs with respect to declined business, politically exposed person (“PEPs”), and request from Commission, FMU and Law Enforcement Agencies (“LEAs”) particularly in relation to investigation; and
 - respond promptly to requests for information by the SECP/LEAs.

6. HOW TO COMMUNICATE THE POLICIES AND PROCEDURES TO EMPLOYEES AND STAFFS AS WELL AS BRANCHES:

- 6.1. As part of first line of defense, the CO shall clearly specify the Policies, Procedures and Controls duly approved by the Board in writing, and communicated to all employees including those employed at branches through Inter-Office Memo (“IOM”).
- 6.2. The CO must have the authority and ability to oversee the effectiveness of FCEL AML/CFT systems, compliance with applicable legislation and provide guidance in day-to-day operations of the AML/CFT Policies and Procedures especially at the branches.

7. HOW TO REFLECT CHANGES TO AML/ATF LEGISLATIVE AND REGULATORY REQUIREMENTS:

- 7.1. The CO shall update/amend the Policies, Procedures and Controls in line with the changes/amendments in SECP AM/CFT Regulations with the approval of the Board Equivalent and communicate in writing to all relevant employees through IOM; and
- 7.2. The CO shall provide amendments in the Policies, Procedures and Controls separately attached to amendment Policies, Procedure and Controls showing impact of such changes on AML/CFT Regime.

8. HOW OFTEN TO UPDATE POLICIES, PROCEDURES AND CONTROLS:

- 8.1. As and when any change/amendment is affected in AML/CFT legislation applicable to FCEL, the CO shall immediately update the Policies, Procedures and Controls in line with the changes/amendment in legislatives.
- 8.2. The CO will communicate in writing to all employees after getting Board’s approval on such changes.
- 8.3. The CO will update the risk profile of the country to which FCEL or its Customers are exposed to as and when it comes it his knowledge.

9. HOW OFTEN TO CONDUCT AN INDEPENDENT AUDIT OF YOUR AML/ATF COMPLIANCE PROGRAM:

- 9.1. FCEL shall, on a regular basis, conduct an AML/CFT audit to independently evaluate the effectiveness of compliance with AML/CFT Policies and Procedures;
- 9.2. The frequency of the audit will be on periodic basis depending on nature, size, complexity, and risks identified during the risk assessments by FCEL.
- 9.3. The AML/CFT audits shall be conducted to assess the AML/CFT systems which include:
 - 9.4. to test the overall integrity and effectiveness of the AML/CFT systems and controls;
 - 9.5. to assess the adequacy of internal policies and procedures in addressing identified risks, including;
 - 9.5.1. CDD measures;

- 9.5.2. Record keeping and retention;
- 9.5.3. Third party reliance; and
- 9.5.4. Transaction monitoring.
- 9.6. to assess compliance with the relevant laws and regulations;
- 9.7. to test transactions in all areas of FCEL, with emphasis on high–risk areas, products and services;
- 9.8. to assess employees’ knowledge of the laws, regulations, guidance, and policies & procedures and their effectiveness in implementing policies and procedures;
- 9.9. to assess the adequacy, accuracy and completeness of training programs;
- 9.10. to assess the effectiveness of compliance oversight and quality control including parameters for automatic alerts (if any); and
- 9.11. to assess the adequacy of FCEL process of identifying suspicious activity including screening sanctions lists.

10. POLICIES, PROCEDURES AND CONTROLS:

11. THREE LINES OF DEFENSE:

FCEL shall establish the following three (3) lines of Defense to combat ML/TF:

11.1. Front Office (Customer-Facing Activity):

- 11.1.1. Front Office / Dealers/Sale Persons shall be required to know and carry-out the AML/CFT due diligence related policies and procedures when a customer opens an account with FCEL which include the following:
- 11.1.2. Account Opening Forms, if possible, shall be completed in the presence of the Customer with mandatory fill-in mandatory fields and all not relevant spaces shall be marked as “Not Applicable or Crossed”;
- 11.1.3. KYC forms shall be completed in the presence of the Customer, if possible;
- 11.1.4. All attachments needed as per Standard Account Opening Forms of CDC and PSX shall be completed;
- 11.1.5. Account Opening amount shall be accepted in cheque/pay-order/demand draft on the bank of beneficial owner of the customer.
- 11.1.6. Account Opening confirmation along with all details entered into FCEL back-office, CDC and NCCPL shall be communicated to the Customer on his/her registered address/email or handed over to the Customer if physically available.

11.2. Compliance Checks:

- 11.2.1. The Compliance Officer shall check the account opening forms along with all annexures before allowing the Customer to start Business Relation with FCEL;
- 11.2.2. If there is any discrepancy in the Account Opening process, the Compliance Officer shall communicate the same to Front Office/Dealer/Sale Person for rectification before start of Business Relation with FCEL;

11.2.3. The Compliance Officer shall do the Risk Assessment of the Customer as per AML/CFT Risk Assessment Matrix annexed to SECP Guideline on AML/CFT Regulations; and

11.2.4. The Compliance Officer shall do the Risk Profiling of the Customer based on Risk Assessment of the Customer.

11.3. Internal Audit Process:

11.3.1. Internal Auditor shall periodically conduct AML/CFT audits on an Institution-wide basis;

11.3.2. In case of discrepancies/non-compliances observed during audit process, he/she will communicate his/her findings and along with recommendations to the Senior Management including Compliance Officer;

11.3.3. Internal Auditor shall follow-up their findings and recommendation until their complete rectifications.

12. IDENTIFICATION OF CUSTOMERS, ASSESSMENT AND UNDERSTANDING OF RISK:

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

12.1.1. customer base;

12.1.2. products and services offered;

12.1.3. delivery channels;

12.1.4. the jurisdictions within which it or its Customers do business; and

12.1.5. Another relevant risk category.

12.2. FCEL will 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

12.2.1. High

12.2.2. Medium

12.2.3. Low

12.3. FCEL may follow the Probability and Likelihood Risk Rating Matrix as defined in the SECP Guideline for AML/CFT Regulations; however, it will 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.

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

12.4.1. financial loss to FCEL from the crime;

12.4.2. monetary penalty from regulatory authorities; and

12.4.3. reputational damages to the business or the entity itself.

12.5. FCEL shall analyze and identify the likelihood that these types or categories of risk will

be misused for ML and/or for TF purposes. This likelihood is for instance;

12.5.1.High if it can occur several times per year;

12.5.2.Medium if it can occur once per year; and

12.5.3.Low if it is unlikely, but not possible.

12.6. FCEL should update its risk assessment every 12 to 18 months taking into account:

12.6.1. new products are offered;

12.6.2. new markets are entered;

12.6.3. high risk Customers open or close their account; or

12.6.4. the products, services, policies and procedures are changed.

12.7. FCEL Securities shall have appropriate mechanism to provide risk assessment information to the Commission if required.

12.8. High-Risk Classification Factors:

12.8.1. FCEL 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 FCEL 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 include:

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

12.8.3. Non-resident Customers;

12.8.4. Legal persons or arrangements;

12.8.5.Companies that have nominee shareholders;

12.8.6.Business that is cash-intensive;

12.8.7. 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;

12.8.8. Politically Exposed Persons;

12.8.9. Shell companies, especially in cases where there is foreign ownership which is spread across jurisdictions;

12.8.10. Trusts and other legal arrangements which enable a separation of legal ownership and beneficial ownership of assets; and

12.8.11. Requested/Applied quantum of business does not match with the profile/particulars of client.

12.9. Country or Geographic Risk Factor:

12.9.1. Due to location of a Customer, the origin of a destination of transactions of the Customer, business activities of FCEL 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. FCEL may indicate High Risk to its Customers based on following factors:

- 12.9.2. 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;
- 12.9.3. Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations;
- 12.9.4. Countries identified by credible sources as having significant levels of corruption or other criminal activity; and
- 12.9.5. 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.

12.10. Product, Service, Transaction or Delivery Channel Risk Factor:

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

12.11. Low Risk Classification Factors:

12.11.1. Customer risk factors:

- 12.11.1.1. FCEL shall rate a Customer as Low Risk who satisfies the requirements under regulation 11 (2) (a) and (b) of the SECP AML/CFT Regulations as under:
- 12.11.1.2. 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;
- 12.11.1.3. public listed companies that are subject to regulatory disclosure requirements to ensure adequate transparency of beneficial ownership;

12.11.2. Product, service, transaction or delivery channel risk factors:

12.11.2.1.1. FCEL rate 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.

12.11.3. Country risk factors:

12.11.3.1. FCEL taking into account possible variations in ML/TF risk between different regions or areas within a country, may rate the Customer as Low Risk who belongs to:

12.11.3.2. Countries identified by credible sources, such as mutual evaluation or detailed assessment reports, as having effective AML/CFT systems; and

12.11.3.3. Countries identified by credible sources as having a low level of corruption or other criminal activity.

12.11.4. Risk Matrix:

12.11.4.1. FCEL 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;

12.11.4.2. in Low Risk category;

12.11.4.3. those that carry somewhat higher risk, but still acceptable risk; and

12.11.4.4. those that carry a high or unacceptable risk of money laundering and terrorism financing.

13. Risk Management:

13.1. Risk Tolerance:

13.1.1. Risk Tolerance is the amount of risk that FCEL is willing and able to accept and correlate its Risk Mitigation Measures and Controls accordingly, for example:

13.1.2. If FCEL determines that the Risk associated with a particular type of Customer exceed its Risk Tolerance, it may decide not to accept or maintain that particular type of Customer(s).

13.1.3. Conversely, if FCEL determine that the Risk associated with a particular type of Customer are within the bound of its Risk Tolerance, it must ensure that Risk mitigation Measures it applies are commensurate with the Risk associated with that type of Customer(s).

13.1.4. Senior Management and the Board of FCEL shall establish their Risk Tolerance, based on which FCEL shall have sufficient capacity and expertise to effectively manage the Risk acceptable in line with their Risk Tolerance and the consequences such as legal, regulatory, financial and reputation, of AML/CFT compliance failure.

13.1.5. If FCEL decides to establish a high-risk Tolerance and accept high risk then it shall have Mitigation Measures and Controls in place commensurate with those high risks.

13.2. Risk Mitigation and Controls Measures:

13.2.1. FCEL policies, procedures and controls will be geared effectively to manage and mitigate the inherent risks that it has identified, including the national risks. It shall monitor the implementation of the controls and enhance them, if necessary.

13.2.2. The nature and extent of AML/CFT controls will depend on a number of aspects, which include:

13.2.2.1. The nature, scale and complexity of FCEL business;

13.2.2.2. Diversity, including geographical diversity of the FCEL operations;

13.2.2.3. FCEL customer, product and activity profile;

13.2.2.4. Volume and size of transactions; and

13.2.2.5. Extent of reliance or dealing through third parties or intermediaries.

13.2.3. Some of the risk mitigation measures that FCEL may consider include:

13.2.3.1. Determining the scope of the identification and verification requirements or ongoing monitoring based on the risks posed by particular customers;

13.2.3.2. Setting transaction limits for higher-risk customers or products;

13.2.3.3. Requiring senior management approval for higher-risk transactions, including those involving PEPs;

13.2.3.4. Determining the circumstances under which they may refuse to take on or terminate/cease high risk customers/products or services; and

13.2.3.5. Determining the circumstances requiring senior management approval (e.g. high risk or large transactions, when establishing relationship with high risk customers such as PEPs).

14. How Often FCEL will update the Risk Assessment?

14.1. Once the identification procedures have been completed and the business relationship is established, FCEL is required to monitor the conduct of the relationship to ensure that it is consistent with the nature of business stated when the relationship/account was opened.

14.2. FCEL shall conduct ongoing monitoring of their business relationship with its Customers. Ongoing monitoring helps FCEL to keep the due diligence information up-to-date, and review and adjust the risk profile of the customers, where necessary.

14.3. FCEL conduct on-going due diligence which include scrutinizing the transactions undertaken through the course of business relationship with a Customer.

14.4. FCEL will be required to update the Risk Assessment of their Customer as follows or on the occurrence of a triggering event, whichever is earlier:

14.4.1. For its High Risk Customers, their Risk Assessment may be carried out once a year.

- 14.4.2. For its Medium Risk Customers, their Risk Assessment may be carried out once in 2 years.
- 14.4.3. For its Low Risk Customers, their Risk Assessment may be carried out once in 3 years.
- 14.5. FCEL shall update the Customer CDD record on triggering of following events:
 - 14.5.1. Material changes to the customer risk profile or changes to the way that the account usually operates;
 - 14.5.2. Where it comes to the attention of FCEL that it lacks sufficient or significant information on that particular customer;
 - 14.5.3. Where a significant transaction takes place;
 - 14.5.4. Where there is a significant change in customer documentation standards;
 - 14.5.5. Significant changes in the business relationship.
- 14.6. FCEL shall update Risk Profiling of the Customer in the following circumstances:
 - 14.6.1. New products or services being entered into;
 - 14.6.2. A significant increase in a customer's salary being deposited;
 - 14.6.3. The stated turnover or activity of a corporate customer increases;
 - 14.6.4. A person has just been designated as a PEP;
 - 14.6.5. The nature, volume or size of transactions changes.
- 14.7. FCEL shall be vigilant for any significant changes or inconsistencies in the pattern of transactions. Inconsistency is measured against the stated original purpose of the accounts. Possible areas to monitor could be:
 - 14.7.1 transaction type;
 - 14.7.2. frequency;
 - 14.7.3. amount;
 - 14.7.4. geographical origin/destination;
 - 14.7.5. account signatories.

15. CUSTOMER DUE DILIGENCE (CDD):

15.1. For Natural Persons:

- 15.1.1. FCEL is required to know who its Customer are and shall not keep anonymous accounts or accounts in fictions names. FCEL shall take the following steps to ensure that its Customers are who they purport themselves to be:
 - 15.1.1.1. To identify and verify the Customers including their beneficial owners;
 - 15.1.1.2. To understand the intended nature and purpose of the relationship;
 - 15.1.1.3. To know actual ownership; and

- 15.1.1.4. To know control structure of the Customer.
- 15.1.2. FCEL shall conduct ongoing due diligence on the business relationship and scrutinize transactions undertaken throughout the course of that relationship to ensure that transactions being conducted are consistent with:
 - 15.1.2.1. Knowledge of the Customer;
 - 15.1.2.2. Business and Risk Profile as assessed through Annexure-3 of SECP Guidelines on AML/CFT Regulations;
 - 15.1.2.3. Where necessary, the source of funds.
- 15.1.3. FCEL shall conduct CDD when establishing a business relationship if:
 - 15.1.3.1. There is a suspicion of ML/TF, Annex 4 gives some examples of potentially suspicious activities or “red flags” for ML/TF; or
 - 15.1.3.2. There are doubts as to the veracity or adequacy of the previously obtained customer identification information.
- 15.1.4. In case of suspicion of ML/TF, FCEL should:
 - 15.1.4.1. Seek to identify and verify the identity of the customer and the beneficial owner(s), irrespective of any specified threshold that might otherwise apply; and
 - 15.1.4.2. File a Suspicious Transaction Reporting (“STR”) with the FMU, in accordance with the requirements under the Law.
- 15.1.5. FCEL shall monitor transactions to determine whether they are linked and restructured into two or more transactions of smaller values to circumvent the applicable threshold.
- 15.1.6. FCEL shall verify the identification of a customer using reliable independent source documents, data or information including verification of CNICs from Verisys. Similarly, FCEL shall identify and verify the customer’s beneficial owner(s) to understand who the ultimate beneficial owner is.
- 15.1.7. FCEL shall ensure that they understand the purpose and intended nature of the proposed business relationship or transaction.
- 15.1.8. FCEL shall also verify whether that authorized person is properly authorized to act on behalf of the customer while conducting CDD on the authorized person(s) using the same standards that are applicable to a customer and ascertaining the reason for such authorization and obtain a copy of the authorization document.

15.2. Beneficial Ownership of Legal Persons and Legal Arrangements:

- 15.2.1. FCEL shall identify and verify the identity of the customer, and understand the nature of its business, and its ownership and control structure.
- 15.2.2. The purpose of the requirements set out regarding the identification and verification of the applicant and the beneficial owner is twofold:

- 15.2.2.1. first, to prevent the unlawful use of legal persons and arrangements, by gaining a sufficient understanding of the applicant to be able to properly assess the potential ML/TF risks associated with the business relationship; and
 - 15.2.2.2. second, to take appropriate steps to mitigate the risks.
- 15.2.3. If FCEL has any reason to believe that an applicant has been refused facilities by another Securities Broker due to concerns over illicit activities of the customer, it should consider classifying that applicant:
- 15.2.3.1. as higher-risk and apply enhanced due diligence procedures to the customer and the relationship;
 - 15.2.3.2. filing an STR; and/or
 - 15.2.3.3. not accepting the customer in accordance with its own risk assessments and procedures.
- 15.3. FCEL shall accept copies of the documents for identifying a Customer verified by seeing originals during establishing business relationship.

15.4. Identification of Customers that are not physically present:

- 15.4.1. FCEL shall apply equally effective Customers identification procedures and ongoing monitoring standards for Customers not physically present for identification purposes as for those where the client is available for interview.
- 15.4.2. Where a Customer has not been physically present for identification purposes, practices will generally not be able to determine that the documentary evidence of identity actually relates to the Customers they are deal
- 15.4.3. Consequently, there are increased risks and practices must carry out at least one of the following measures to mitigate the risks posed:
 - 15.4.3.1. further verifying the Customer's identity on the basis of documents, data or information referred in Annexure-1 to AML/CFT Regulations, but not previously used for the purposes of verifying the client's identity;
 - 15.4.3.2. taking supplementary measures to verify the information relating to the client that has been obtained by the practice.

15.5. If Customer Due Diligence Measures are Not Completed.

Where FCEL is unable to complete and comply with CDD requirements as specified in the Regulations:

15.5.1. For New Customers:

- 15.5.1.1. it shall not open the account; or
- 15.5.1.2. commence a business relationship; or
- 15.5.1.3. perform the transaction.

15.5.2. For Existing Customers:

- FCEL shall terminate the relationship.
- Additionally, FCEL shall consider making a STR to the FMU.

16. ENHANCED CUSTOMER DUE DILIGENCE MEASURES:

16.1. High Risk Persons or Transactions:

- 16.1.1. FCEL shall be required to perform Enhanced Due Diligence on the following:
- 16.1.2. Persons or transactions involving a country identified as higher risk by FATF;
- 16.1.3. Persons or transactions involving higher risk countries for ML, TF and corruption or subject to international sanctions; and
- 16.1.4. Any other situation representing a higher risk of ML/TF including those that you have identified in your Risk Assessment.

16.2. High Risk Business Relationship:

- 16.2.1. FCEL shall apply enhanced CDD measures for high risk business relationships include:
- 16.2.2. Obtaining additional information on the applicant/customer (occupation, volume of assets, information available through public databases, internet, etc.);
- 16.2.3. Updating more regularly the identification data of applicant/customer and beneficial owner;
- 16.2.4. Obtaining additional information on the intended nature of the business relationship;
- 16.2.5. Obtaining additional information on the source of funds or source of wealth of the applicant/customer;
- 16.2.6. Obtaining additional information on the reasons for intended or performed transactions;
- 16.2.7. Obtaining the approval of senior management to commence or continue the business relationship; and
- 16.2.8. Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

16.3. High Risk Countries and Territories:

- 16.3.1. FCEL is required to consult the following to identify above persons or transactions to be aware of the high risk countries/territories:
- 16.3.2. Publicly available information;
- 16.3.3. Sanctions list issued by the UN;
- 16.3.4. FATF high risk and non-cooperative jurisdictions;
- 16.3.5. FATF and its regional style bodies (FSRBs) and Transparency international corruption perception index;
- 16.3.6. Useful websites include:
 - 16.3.6.1. FATF website: www.fatf-gafi.org ; and
 - 16.3.6.2. Transparency International website: www.transparency.org.

16.4. Complex and Unusual Transactions:

16.4.1. FCEL shall examine the background and purpose of all complex, unusual large transaction, and all unusual patterns of transactions, that have no apparent economic or lawful purpose and conduct enhanced CDD Measures consistent with the risk identified.

16.5. Suspicious Accounts:

16.5.1. FCEL shall apply enhanced CDD measures to the following accounts:

16.5.2. The Customer instructs not to issue any correspondence to the accountholder's address;

16.5.3. Hold Mail" accounts; and

16.5.4. Where the evidence of identity of the account holder is not already in the file.

17. SIMPLIFIED DUE DILIGENCE MEASURES ("SDD"):

17.1. General Principles of SDD:

17.1.1. FCEL may conduct SDD in case of lower risks identified by it. However, the FCEL shall ensure that the low risks it identifies are commensurate with the low risks identified by the country or the Commission. While determining whether to apply SDD, FCEL should pay particular attention to the level of risk assigned to the relevant sector, type of customer or activity.

17.1.2. SDD is not acceptable in higher-risk scenarios where there is an increased risk, or suspicion that the applicant is engaged in ML/TF, or the applicant is acting on behalf of a person that is engaged in ML/TF.

17.1.3. Where the risks are low and where there is no suspicion of ML/TF, the law allows FCEL to rely on third parties for verifying the identity of the applicants and beneficial owners.

17.1.4. Where FCEL decides to take SDD measures on an applicant/customer, it should document the full rationale behind such decision and make available that documentation to the Commission on request.

17.2. Category of Low Risk Customers:

17.2.1. FCEL may rate a Customer as low risk and low risk Customers may include the following:

17.2.2. regulated person 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;

17.2.3. public listed companies that are subject to regulatory disclosure requirements to ensure adequate transparency of beneficial ownership; and

17.2.4. 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.

17.3. SDD Measures:

17.3.1. FCEL shall apply following Simplified Due Diligence measures on Low risk Customer:-

17.3.2. reducing the frequency of customer identification updates;

17.3.3. reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold; and

17.3.4. not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transaction or business relationship established:

18. POLITICALLY EXPOSED PERSONS:

18.1. DEFINITION OF PEP:

18.1.1. 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.

18.2. POLITICALLY EXPOSED PERSONS CATEGORIES

18.2.1. 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:

18.2.2. 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.

18.2.3. 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.

18.2.4. 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.

18.2.5. Family members

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

18.2.6. Close associates

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

18.3. How you will seek approval from senior management?

18.3.1. FCEL shall obtain Senior Management approval to determine the nature and extend of EDD where the ML/TF risks are high. In assessing the ML/TF risk of a PEP, FCEL shall consider factors such as whether the Customer who is a PEP:

18.3.1.1. Is from a high risk country;

18.3.1.2. Has prominent public function in sectors know to be exposed to corruption;

18.3.1.3. Has business interests that can cause conflict of interests (with the position held).

18.4. How you will take adequate measures to establish source of wealth and source of funds?

18.4.1. FCEL shall consider other red flags include (in addition to the Red Flags that they consider for other applicants):

18.4.1.1. The information that is provided by the PEP is inconsistent with other (publicly available) information, such as asset declarations and published official salaries;

18.4.1.2. Funds are repeatedly moved to and from countries to which the PEP does not seem to have ties;

18.4.1.3. A PEP uses multiple bank accounts for no apparent commercial or other reason;

18.4.1.4. The PEP is from a country that prohibits or restricts certain citizens from holding accounts or owning certain property in a foreign country.

- 18.4.2. FCEL shall take a risk based approach in determining whether to continue to consider a customer as a PEP who is no longer a PEP. The factors that they should consider include:
- 18.4.2.1. the level of (informal) influence that the individual could still exercise; and
 - 18.4.2.2. whether the individual's previous and current function are linked in any way (e.g., formally by appointment of the PEPs successor, or informally by the fact that the PEP continues to deal with the same substantive matters).
 - 18.4.3. Additionally, where appropriate, FCEL shall consider filing a STR.
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19. SUSPICIOUS TRANSACTION REPORTING:

19.1. Defining what is a 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. A suspicious transaction can include one that was attempted.

19.2. How you and your employees/agents will identify suspicious transactions:

- 19.2.1. FCEL may 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;
- 19.2.2. FCEL shall put on enquiry if transaction is considered unusual.
- 19.2.3. FCEL shall pay special attention to the following transactions:
 - 19.2.3.1. All complex transactions;
 - 19.2.3.2. Unusual large transactions; and
 - 19.2.3.3. Unusual pattern of transactions.
 - 19.2.3.4. Which have no apparent economic or visible lawful purpose.

19.3. Reporting to Compliance Officer:

Where the enquiries conducted by FCEL 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.

19.4. Reporting to Relevant Authority:

- 19.4.1. The Compliance Officer of FCEL 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.
- 19.4.2. 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:

- 19.4.2.1. any unusual financial activity of the Customer in the context of the Customer's own usual activities;
- 19.4.2.2. any unusual transaction in the course of some usual financial activity;
- 19.4.2.3. any unusually-linked transactions;
- 19.4.2.4. any unusual method of settlement;
- 19.4.2.5. any unusual or disadvantageous early redemption of an investment product;
- 19.4.2.6. any unwillingness to provide the information requested.

19.4.3. Cash Transactions:

- 19.4.3.1. Where cash transactions are being proposed by Customers, and such requests are not in accordance with the customer's known reasonable practice, FCEL will need to approach such situations with caution and make further relevant enquiries.
- 19.4.3.2. Where FCEL has been unable to satisfy that any cash transaction is reasonable, and therefore should be considered as suspicious. It is also obligated to file Currency Transaction Report (CTR), for a cash-based transaction involving payment, receipt, or transfer of Rs. 2 million and above.
- 19.4.3.3. If FCEL decides that a disclosure should be made, the law requires FCEL to report STR without delay to the FMU, in standard form as prescribed under AML Regulations 2015. STR prescribed reporting form can be found on FMU website through the link <http://www.fmu.gov.pk/docs/AMLRegulations2015.pdf>.
- 19.4.3.4. FCEL shall accept from the Account Holder(s) payments through "A/c Payee Only" crossed cheque, bank drafts, pay orders or other crossed banking instruments in case of amounts in excess of Rs. 25,000/- electronic transfer of funds to the Broker through banks would be regarded as good as cheque.
- 19.4.3.5. Under exceptional circumstances where it becomes necessary for Broker to accept cash in excess of Rs.25.000/-, FCEL shall report such instances with rationale thereof to the Exchange in accordance with the mechanism prescribed by the Exchange.

19.4.4. Reporting to Commission and FMU:

- 19.4.4.1. FCEL is required to report total number of STRs filed to the Commission on bi-annual basis within seven days of close of each half year.
- 19.4.4.2. Vigilance systems should require the maintenance of a register of all reports made to the FMU. Such registers should contain details of:
 - 19.4.4.2.1. the date of the report;
 - 19.4.4.2.2. the person who made the report;
 - 19.4.4.2.3. the person(s) to whom the report was forwarded; and

- 19.4.4.2.4. reference by which supporting evidence is identifiable;
- 19.4.4.3. Where an applicant or a Customer is hesitant/fails to provide adequate documentation (including the identity of any beneficial owners or controllers), FCEL shall consider filing a STR.
- 19.4.4.4. Where an attempted transaction gives rise to knowledge or suspicion of ML/TF, FCEL shall report attempted transaction to the FMU.
- 19.4.4.5. Once suspicion has been raised in relation to an account or relationship, in addition to reporting the suspicious activity FCEL shall ensure that appropriate action is taken to adequately mitigate its risk being used for criminal activities.
- 19.4.4.6. FCEL may include a review of either the risk classification of the Customer or account or of the entire relationship itself.
- 19.4.4.7. Appropriate action may necessitate escalation to the appropriate level of decision-maker to determine how to handle the relationship, taking into account any other relevant factors, such as cooperation with law enforcement agencies or the FMU.

19.5. Tipping-off & Reporting:

19.5.1. The Law prohibits tipping-off:

- 19.5.1.1. However, a risk exists that customers could be unintentionally tipped off when FCEL 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.
- 19.5.1.2. Therefore, if FCEL form a suspicion of ML/TF while conducting CDD or ongoing CDD, it shall take into account the risk of tipping-off when performing the CDD process. If FCEL reasonably believes that performing the CDD or on-going CDD process will tip-off the applicant/customer, it may choose not to pursue that process, and should file a STR. FCEL shall ensure that their employees are aware of, and sensitive to, these issues when conducting CDD or ongoing CDD.

20. RECORD KEEPING PROCEDURES:

20.1. FCEL shall ensure that all information obtained in the context of CDD is recorded. This includes both;

20.1.1. recording the documents FCEL is provided with when verifying the identity of the Customer or the beneficial owner; and

20.1.2. transcription into FCEL own IT systems of the relevant CDD information contained in such documents or obtained by other means.

20.2. FCEL shall maintain, for at least 5 years after termination, all necessary records on transactions to be able to comply swiftly with information requests from the competent authorities. Such records should be sufficient to permit the reconstruction of individual transactions, so as to provide, if necessary, evidence for prosecution of criminal activity.

20.3. Where there has been a report of a suspicious activity or FCEL is aware of a continuing investigation or litigation into ML/TF relating to a customer or a transaction, records relating to the transaction or the customer shall be retained until confirmation is received that the matter has been concluded.

20.4. FCEL Securities shall also keep following records of identification data obtained through the Customer Due Diligence process that would be useful to an investigation for a period of 5 years after the business relationship has ended:

20.4.1. Account files;

20.4.2. Business correspondence;

20.4.3. Records pertaining to enquiries about:

20.4.3.1. Complex;

20.4.3.2. Unusual large transactions; and

20.4.3.3. Unusual patterns of transactions.

20.5. Beneficial ownership information must be maintained for:

20.5.1. at least five (5) years after the date on which the customer (a legal entity) is dissolved or otherwise ceases to exist; or

20.5.2. five (5) years after the date on which the customer ceases to be a customer of FCEL.

20.6. Records relating to verification of identity will generally comprise:

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- 20.6.1. a description of the nature of all the evidence received relating to the identity of the verification subject; and
 - 20.6.2. the evidence itself or a copy of it or, if that is not readily available, information reasonably sufficient to obtain such a copy.
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20.7. Records relating to transactions will generally comprise:

20.7.1. details of personal identity, including the names and addresses, of:

- 20.7.1.1. the customer;
 - 20.7.1.2. the beneficial owner of the account or product; and
 - 20.7.1.3. Any counter-party
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20.7.2. details of securities and investments transacted including:

- 20.7.2.1. the nature of such securities/investments;
 - 20.7.2.2. valuation(s) and price(s);
 - 20.7.2.3. memoranda of purchase a
 - 20.7.2.4. source(s) and volume of funds and securities;
 - 20.7.2.5. destination(s) of funds and securities;
 - 20.7.2.6. memoranda of instruction(s) and authority(ies);
 - 20.7.2.7. book entries;
 - 20.7.2.8. custody of title documentation;
 - 20.7.2.9. the nature of the transaction;
 - 20.7.2.10. the date of the transaction;
 - 20.7.2.11. the form (e.g. cash, cheque) in which funds are offered and paid out.
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21. EMPLOYEE SCREENING AND TRAINING:

- 21.1. FCEL shall maintain adequate policies and procedures to screen prospective and existing employees to ensure high ethical and professional standards when hiring. The extent of employee screening should be proportionate to the potential risk associated with ML/TF in relation to the business in general, and to the particular risks associated with the individual positions.
- 21.2. Employee screening shall be conducted at the time of recruitment, periodically thereafter, i.e., at least annually and where a suspicion has arisen as to the conduct of the employee.
- 21.3. FCEL shall ensure that their employees are competent and proper for the discharge of the responsibilities allocated to them. While determining whether an employee is fit and proper, FCEL may:

- 21.3.1. Verify the references provided by the prospective employee at the time of recruitment;
- 21.3.2. Verify the employee's employment history, professional membership and qualifications;
- 21.3.3. Verify details of any regulatory actions or actions taken by a professional body;
- 21.3.4. Verify details of any criminal convictions; and.
- 21.3.5. Verify whether the employee has any connections with the sanctioned countries or parties.