

KNOW YOUR CUSTOMER

CUSTOMER DUE DILIGENCE (KYC/CDD) POLICY & PROCEDURE

1. Introduction

KYC Stands for “Know Your Customer “and a ‘Customer’ is defined as a person who is engaged in a financial transaction or activity with a reporting entity and includes a person on whose behalf the person is engaged in the transaction or activity is acting.

KYC policy is an important step developed globally to prevent identity theft, financial fraud, money laundering and terrorist financing. The objective of KYC is to enable the brokerage houses to know and understand their customers better and help them manage their risks prudently and to prevent the brokerage house from being used. KYC is a regulatory and legal requirement and KYC policies are framed by respective brokerage houses incorporating the key elements following the SECP & Exchange Circulars / Directives such as customer identification procedures & monitoring of transactions and risk management. The process of KYC entails identifying the customer and verifying the identity by using reliable and independent documents or information. While opening of accounts the brokerage houses collect documents to identify and verify the customers.

Trust Securities & Brokerage Limited (Hereinafter referred to as “**TSBL/The Company**”) has formulated a **Know your Customer /Customer Due Diligence policy**, referred here as “**KYC/CDD Policy**”, based on the criteria and in accordance with the guidelines as specified by SECP and PSX. It further explains how to ensure the identity of the clients, who initiates relationship with **TSBL** and how to maintain and update the KYC/CDD measures for existing customers.

This KYC/CDD policy has been approved by the Board of Directors of **TSBL** and the Board has authorized the CEO to approve any subsequent amendments or modifications associated with this policy.

For better services to our customers, **TSBL** has also developed and put into place a “KYC/CDD check list Form” which classifies the categories of KYC/CDD for both individual and institutional clients. This form is attached as **Appendix I** and shall be considered as integral part of KYC/CDD Policy.

While developing the KYC/CDD policies and framework, International best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF) must be taken into account.

2. Areas of Coverage

Following key Areas has been covered:

- 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

3. Customer Identification

- 3.1 Customer identification is very important which defends the Company from being used by unscrupulous and / or criminal elements. **TSBL** shall ensure that no anonymous accounts or accounts that are obviously in the name of fictitious persons are opened or maintained. The Company must take all reasonable steps to confirm the true identity of the prospective client and to collect all relevant information to ascertain the identity of the real controlling party of the trading account. For this purpose The Company may obtain minimum information/set of documents (detail of which is given in Annexure-II) from various type of customers as prescribed by SECP from time to time and any additional documents where considered necessary.
- 3.2 **TSBL** shall determine whether a customer is acting on behalf of another person. In such cases steps should be taken and all the relevant documents should be obtained to determine the true identity of that person.
- 3.3 For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies / organizations additional care will 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.
- 3.4 **TSBL** will 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.
- 3.5 **TSBL** will make sure and be careful that accounts of Institutions / organizations /corporate bodies are not opened in the individual name of any employee / official. Because of sensitive nature of public sector (government) entities and risk of potential conflict of interest. Government accounts should not be opened in the personal names of Government officials. Any such account, which is to be operated by an officer of is to be operated by an officer of the Federal / Provincial / Local Government in his / her official capacity, shall be opened only 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.
- 3.6 When an individual or an organization/institution opens brokerage account with **TSBL**. It is important to find out and document in broad terms what does the customer intend to do. Purpose/Intension of Account Opening should also be recorded in the assessment of information form.
- 3.7 **TSBL** must obtain sufficient information to determine the expected source of funding for the account, particularly whether the client shall be receiving / remitting funds in foreign currency.
- 3.8 In addition to the requirements mentioned above, **TSBL** must ensure that all receipts and payments to the customers above Rs.25, 000/= must be through cross cheques, bank drafts, pay orders or other crossed banking instruments. For exceptional circumstances where it becomes necessary for the Company to accept cash from a customer, reporting of such instances with rationale should be made immediately to the Exchange with clear reason as to why the cash receipt was accepted.

- 3.9 **TSBL** shall ensure physical presence of the customer at the time of opening of account. In case of non-resident/overseas clients or clients in cities where the Company does not have a branch office more strong identity verification procedures should be applied. These include verification by a reliable third party, confirmation from another broker with whom the customer had an account etc. When obtaining confirmation from the third parties in different jurisdictions the Company must consider whether that jurisdiction is following the Financial Action Task force (FATF recommendations.)

4. Risk Assessment

- 4.1 **TSBL** must perform a risk assessment of all the existing and prospective customers on the basis of information obtained regarding their identity, nature of income, source of funding, location/domicile etc. and based on the results of such assessment, categorize the customers among high risk, medium risk and low risk customers.

TSBL shall formulate clear guidelines for identification of **HIGH RISK CUSTOMERS** which include:

- i. Non-resident customers;
 - ii. Legal persons or arrangements including non-governmental organization; (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 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 heavens;
 - 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 recommendation; and
 - x. Politically Exposed Persons (PEPs) or customers holding public or high profile positions.
- 4.2 **“Politically Exposed Persons”** (PEPs) also falls under **High Risk Category** these individuals who are or have been entrusted with prominent public functions for example senior politicians, senior government, judicial or military officials, and 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. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.

- 4.3 In general, **TSBL** should conduct a self-assessment 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.
- 4.4 The bottom line is that the Company needs to assess the risk of possible money laundering / terrorism financing and the guidelines and this statement will help in documenting such risk if the company assesses that it exists.

5. Enhanced Due Diligence

- 5.1 **TSBL** should apply Enhanced Due Diligence (EDD) when dealing with High-Risk customers. Appropriate Policies and Procedures must be created and put in place to ensure that activities and transactions of High Risk customers are adequately monitored and any unusual transactions are reported in a **SUSPICIOUS TRANSACTION REPORT (STR)**.
- 5.2 When dealing with High-Risk customers including Politically Exposed Persons (PEPs) **TSBL** should:
 - a) Obtain senior management approval for establishing business relationships with such customers. The same shall also apply in case of an existing customer which is classified as High-risk pursuant to these guidelines or which is subsequently classified as result of on-going due diligence.
 - b) Take reasonable measures to prove the source of wealth and funds invested by these customers.
- 5.3 If the Company is unable to comply with the above requirements then it should not open the brokerage account, or should terminate the business relationship, as the case may be and should submit a Suspicious Transaction Report (STR).

6. Suspicious Transaction Report

Similarly, When **TSBL** is not able to identify and verify the identity of the customer / beneficial owner of the account or is not able to obtain adequate information regarding the purpose and intended nature of the customer relationship, it should not open the brokerage account, commence customer relationship or in the case of an existing customer should terminate the relationship and consider the filing of a Suspicious Transaction Report (STR).

7. On Going Due Diligence

- 7.1 **TSBL** and their agents must realize that Customer Due Diligence (CDD) is not a one-time exercise at the time of account opening only. The Company should ensure that on-going Due Diligence on the customer relationship and scrutiny of transactions is undertaken to ensure that the transaction executed in a particular account are consistent with our knowledge of the customer, its business and risk profile, historical pattern of transactions and the pattern and source of funding of the account.
- 7.2 In the above context, **TSBL** shall ensure that the customer records are updated at regular intervals and sufficient information may be obtained regarding any significant change in the customer profile.

8. Simplified Due Diligence

8.1 The Company knows that the purpose of CDD / KYC guidelines is not to make broker operations unnecessarily difficult to handle but give assistance to them to keep an eye against their services from being used for money laundering by unscrupulous elements.

TSBL shall 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 beneficial owner of a customer is publicly available.
- c) Adequate checks and controls exist.

8.1 Accordingly, the following customers may be considered for simplified or reduced CCD.

- 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

8.2 When opting for simplified or reduced due diligence, 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.

9 Compliance Function

9.1 It is important that **TSBL** should set up a compliance function to implement these guidelines with suitable human resource and MIS reporting capabilities, enabling it to effectively monitor the client's transactions and make timely reports of any suspicious activity.

9.2 The Compliance Officer function must have skills and experience necessary for satisfactory performance of functions assigned and must be independent and report directly to the Director / CEO.

9.3 The Compliance function shall ensure compliance with the requirements of these guidelines as well as other regulatory requirements applicable on **TSBL** under the relevant legal framework. A record should be maintained of all violations / non-compliance identified and reported to Board of Directors and must be available for the inspection of Commission and Exchange as and when required.

10 Data Retention

TSBL shall maintain the relevant documents obtained through the application of KYC/CDD procedure, especially those pertaining to identification of the identity of a customer account files and correspondence exchanged with the customer(s) for a minimum period of five years.

11 Training

TSBL should develop an on-going training program for his employees and agents to ensure that they understand their duties under CDD / KYC and are able to perform the same on satisfactory level.

12 Screening

12.1 In order to ensure, that unscrupulous elements do not become employees / agents, **TSBL** shall formulate and implement appropriate screening procedures to check high standards while hiring of staff, however, the screening process must be an ongoing exercise and applied consistently to ensure that employees, particularly those working at sensitive positions, meet and maintain high standards of integrity, ethics and professionalism and this is important not just for the sake of our own safety and reputation but also for the reputation of the Capital Market.

12.2 **TSBL** must provide any information pertaining to its clients and their transactions to the Exchanges, Financial Monitoring Unit or the Commission as and when required.

13. Other Requirements

TSBL must comply with the 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.

14. Concluding Remarks

As the global economy becomes increasingly inter-connected and the ease of cross border financial transactions increases, every country, including Pakistan becomes more exposed to the possible illegal money transfers and money laundering. It is to guard the Capital Market of our Country and its participants that guidelines prescribed by SECP and this explanatory statement are being issued, as is already the case for other segments of the financial sector such banks and asset management companies. It is expected that we will take serious note of these guidelines and statement and implement the same for sake of our own safety and reputation as well as ensuring the reputation, growth and future development of our Capital Market.

KYC / CDD CHECK LIST

DATE	ACCOUNT TITLE	ACCOUNT / UIN #
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SECTION - A
Minimum information / documents to be provided by the investor

<small>please tick</small>	<small>please tick</small>		
1. Individuals / Sole Proprietorship	2. Partnerships	3. Institutions / Corporations	
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	List 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/ Trust 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	List 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 of 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 of 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 shareholder's list available	YES	NO
3. In case of Government Accounts Mark YES if the account is not in the personal name of the government official A resolution / authority letter (duly endorsed by the Ministry of Finance or Finance Department of concerned government is available which authorizes the opening and operating of his account by an officer of federal/provincial/local government in his official capacity).	YES	NO

If the answer to any of the above question was No, go to Section-G 3 or G 4, otherwise go Section-C

SECTION - C
Risk Category of Investor

<small>please tick</small>		
1. Government Department / Entity	LOW RISK	Go to Section-G.1
2. Public Listed Company	LOW RISK	Go to Section-G.1
3. Private Limited Company	MEDIUM RISK	Go to Section-G.2
4. Non-Government Organization (NGO)	HIGH RISK	Go to Section-G.3
5. Trust / Charity	HIGH RISK	Go to Section-G.3
6. Unlisted Financial Institution		Go to Section-D
7. Individual		Go to Section-E

SECTION - D

Unlisted Private Financial Institutions		
Is the unlisted private financial institution domiciled in Pakistan and is regulated by the SECP/ State Bank of Pakistan (SBP) 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
	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 doesn't match with size & quantum of investments/	YES	NO
3. Is the person involved in dealing in high value items <i>(based on declared occupation)</i>	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		
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)	YES	NO
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 <i>(approval shall be provided by management through signing the respective Account Opening Form)</i>	YES	NO
If YES, proceed to Section G.3	If NO, proceed to Section G.4	

SECTION - G

Investor Risk Profile		
	Risk Classification	KYC Requirements
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.

CONFIRMATION of physical presence of customer when opening account	YES	NO
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Other Comments

Completed By	Name of Sales Person / Agent	Signature	Date
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Checked By	Name of Compliance Person	Signature	Date
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Type of Customers, Information & Documents Required

S. No	Type of	Information Required	Documents Required
1.	Individuals /Sole proprietor ship	<ul style="list-style-type: none"> ▪ Name and Father's Name ▪ Address ▪ Mobile /Telephone Number(s) ▪ Sources of Income ▪ Nationality & NTN ▪ Guardian name (if Applicable) 	<ul style="list-style-type: none"> ▪ Copy of CNIC or passport or attested copy of B form in case of Minor ▪ Detail of Business / Employment Proof ▪ Zakat Exemption Certificate (If Applicable) ▪ Guardian Certificate (If Applicable)
2.	Partnership based entity	<ul style="list-style-type: none"> ▪ Name of Partnership Entity ▪ Names of Partners ▪ Father's Name of Partners ▪ Address of Partnership entity ▪ Telephone Number(s) 	<ul style="list-style-type: none"> ▪ Copy of CNIC/ passport of all Partners ▪ Copy of CNIC of authorized signatories ▪ List of Authorized signatories along with power of attorney ▪ Resolution authorizing investments ▪ Copy of latest financials of partnership
3.	Companies (Institutional and Corporate)	<ul style="list-style-type: none"> ▪ Name of Company and its Directors ▪ Registered Address ▪ Telephone number (s) ▪ Contact persons ▪ Registered number & NTN 	<ul style="list-style-type: none"> ▪ Copy of CNIC/ passport of all Directors ▪ Audited Accounts of the company ▪ Memorandum and Article of Association ▪ Board Resolution authorizing investments ▪ Certificate of Incorporation/ Commencement of Business ▪ List of Authorized Signatories along with copy of CNICs and power attorney
4.	Clubs, Societies and Associations	<ul style="list-style-type: none"> ▪ Name of Club, Society or Association ▪ Registered address of Club, Society or Association ▪ Telephone numbers(s) Contact Persons 	<ul style="list-style-type: none"> ▪ Board / Governing Body Resolution for Investment ▪ Certified copy of bylaws/ rules and regulations ▪ Copy of CNIC of Board's members ▪ Certified copy of certificate of Registration ▪ List of Authorized Signatories along with copy of CNICs and power attorney ▪ Copy of latest financials
5.	Trusts including, but not limited to, Provident Fund, Gratuity Fund, Pension Fund, mutual fund etc.	<ul style="list-style-type: none"> ▪ Name of trust, Fund etc ▪ Name of Trustee ▪ Address of Trust/ Fund etc. ▪ Telephone number(s) ▪ Contact persons 	<ul style="list-style-type: none"> ▪ Copy of CNIC of all Trustees ▪ Certified copy of Trust Deed ▪ Trustee / Governing body Resolution for Investment ▪ Copy of the latest financials of the Trust ▪ List of Authorized Signatories along with copy of CNICs and power of attorney
6.	Executors and Administrators	<ul style="list-style-type: none"> ▪ Name of Entity for Executor/Admin. is appointed ▪ Name of Executor/ Administrator ▪ Address of entity & Telephone 	<ul style="list-style-type: none"> ▪ Copy of CNIC of Executor/Administrator ▪ Certified copy of the letter of Administration.
7.	Government Entities	<ul style="list-style-type: none"> ▪ Name of Government owned Organization ▪ Address of Government owned organization ▪ Telephone numbers ▪ Contact persons 	<ul style="list-style-type: none"> ▪ A Special Resolution/ authority endorsed by the Ministry of Finance or Finance Department from concerned Government (Federal/ Provincial/Local) clearly listing the persons/ officers authorized to operate such account ▪ List of Authorized Signatories ▪ Copy of CNIC of authorized officer(s)