

ANTI-MONEY LAUNDERING POLICY

Know Your Customer/Customer Due Diligence

Azee Securities (Pvt) Ltd.
TREC Holder PSX
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1. BACKGROUND:

In the last few years, across the world regulations have been put in place to discourage money laundering and financing of illegal/criminal activities. Pakistan is a signatory to such agreement and is a member of relevant bodies such as Financial Action Task Force (FATF). In view of recommendations of FATF and other relevant bodies and implement appropriate policies and procedures. Pakistan has enacted the ANTIMONEY LAUNDERING ACT 2010. In the above context, Apex capital market regulator, the SECP have provided comprehensive guidelines for Pakistan capital market institutions regarding how to develop and implement policies and procedures.

2. KYC/AML PHILOSOPHY OF AZEE SECURITIES:

The KYC / AML philosophy of AZEE SECURITIES is to prevent AZEE SECURITIES from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. The objective of this policy is also to enable AZEE SECURITIES to know/understand its customers and their financial dealings better which in turn will help AZEE SECURITIES to manage its risks prudently.

It is important that AZEE SECURITIES's management views "money-laundering prevention" and "knowing your customer" as part of the risk management strategies and not simply as standalone requirements that are being imposed by legislation/regulators'. Hence the objective of the policy is to

- Customer Identification
- Risk assessment of customer
- Circumstances where Enhanced Due Diligence is required
- On-going due Diligence
- Circumstances where simplified Due Diligence can be adopted
- Compliance function
- Data retention
- Training and employee screening

The Azee would also consider International best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF) while develop our KYC/CDD policy To have a proper Customer Due Diligence (CDD) process before registering clients.

3. WHAT IS MONEY LAUNDERING?

Money Laundering can be defined as engaging in financial transactions that involve income derived from criminal activity, transactions designed to conceal the true origin of criminally derived proceeds and appears to have been received through legitimate sources/origins.

In simple terms money laundering is most often described as the "turning of dirty or black money into clean or white money". If undertaken successfully, money laundering

allows criminals to legitimize "dirty" money by mingling it with "clean" money, ultimately providing a legitimate cover for the source of their income.

4. WHY “KNOW YOUR CUSTOMER”?

One of the best methods of preventing and deterring money laundering is a sound knowledge of a customer’s business and pattern of financial transactions. The adoption of procedures by which financial institutions “know their customer” is not only a principle of good business but is also an essential tool to avoid involvement in money laundering.

AZEE SECURITIES shall adopt appropriate KYC procedures and internal controls measures to:

- Determine and document the true identity of the customers who establish relationships, open accounts or conduct significant business transactions and obtain basic background information on customers;
- Assess the money laundering risk posed by customers’ expected use of AZEE SECURITIES ’s products and services;
- Protect AZEE SECURITIES from the risks of doing business with any individual or entity whose identity cannot be determined or who refuses to provide information, or who have provided information that contains significant inconsistencies which cannot be resolved after due investigation.

5. CUSTOMER IDENTIFICATION:

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, AZEE Securities 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 as prescribed by the SECP. AZEE Securities will 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. It is important to recognize if a customer is acting on behalf of another person. If this is the case, then the identity of that person should be ascertained and relevant documents of that person needs to be obtained also.

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. Further it 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 you to understand whether the customer should be classified as a low risk or a high risk customer from the KYC/CDD perspective.

AZEE Securities will assess if 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, AZEE Securities have to carefully determine the source of funding especially if the customer is expected to receive/send funds in foreign currency.

As already the practice and part of KSE regulations, AZEE Securities 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 AZEE Securities.

It is further to ensure, to have 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 AZEE Securities 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. The list of jurisdictions following FATF recommendations is available.

6. RISK ASSESSMENT:

This risk assessment by brokers 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.

As per SECP broad outline of factors that will categorize the customer into **HIGH RISK CATEGORY**:

- Non-resident customers;
- Legal persons or arrangements including non-governmental organizations; NGOs/ not-for-profit organizations (NPOs) trusts / charities;
- Customers belonging to countries where CDD/KYC and antimoney laundering regulations are lax or if funds originate or go to those countries;
- Customers whose business or activities present a higher risk of money laundering such as cash based business;
- Customers with links to offshore tax havens;
- High net worth customers with no clearly identifiable source of income;

- There is reason to believe that the customer has been refused brokerage services by another brokerage house; Non-face-to face / on-line customers. Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations.

- Politically Exposed Persons (PEPs) or customers holding public or high profile positions 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.

In general, AZEE Securities would 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.

7. ENHANCED DUE DILIGENCE:

Once a customer has been categorized as **HIGH RISK**, it is necessary for the AZEE Securities 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).

- When dealing with high-risk customers, including Politically Exposed Persons (PEP's) the nominee director/senior management of the AZEE Securities, has to approve the opening of brokerage account. In the case of **HIGH RISK CATEGORY** customers, it is all the more important for AZEE Securities 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. The 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 cannot be fulfilled by the AZEE Securities than they would 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 AZEE Securities is unable to fulfill the above mentioned requirements, such account should be closed and a Suspicious Transaction Report filed.
- Similarly, brokerage account would 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.

8. ON-GOING DUE DILIGENCE:

- AZEE Securities and their Agents/Dealers 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 AZEE Securities 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 AZEE Securities in terms of the customer's profile, risk category, historical pattern of the transactions and their historic funding source.

- AZEE Securities would 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.

9. SIMPLIFIED DUE DILIGENCE:

The purpose of the KYC/CDD guidelines is not to make operations unnecessarily cumbersome, but to help the broker community guard against their services from being used for money laundering by unscrupulous elements.

- AZEE Securities can 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
- Further to this 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
- 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.

10. COMPLIANCE FUNCTION:

KYC/CDD guidelines are being provided to help Agents/Dealers understand the processes involved in KYC/CDD, it is important that a system be developed 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.

- Compliance Function with suitable human resource
- MIS reporting capability

In this context, the compliance manager to ensure compliance should report to the Board of Directors of the Brokerage House. The Compliance function has 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 indentified 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.

11. DATA RETENTION:

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

12. TRAINING:

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

13. SCREENING:

In order to ensure, that unscrupulous elements do not become employees/agents, AZEE Securities would adopt 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.

AZEE Securities like any other financial institutions is 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.