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

Approved by the Board of Director on 18-MAY-2021

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 and 2020 (**"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. GUIDELINES ON SECP AML/CFT REGULATIONS:

3.1. The Guidelines are applicable to all Regulated Persons ("RPs") including Securities Brokers as defined under the SECP AML/CFT Regulations conducting relevant financial

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3.2.

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").

4. **POLICY, PROCEDURES AND CONTROLS:**

4.1. As required under clause 4 (a) of the SECP AML/CFT Regulations, Growth Securities (Pvt) Limited **(hereinafter called as (GSL))** is required to:

4.2. develop and implement policies, procedures and controls with the approval its Board of Directors for enabling the Securities Broker to effectively manage and mitigate the risk that are identified in the risk assessment of ML/TF or notified to it by the Commission;

4.3. monitor the implementation of those policies, procedures and controls and enhance them if necessary;

4.4. perform enhanced measures where higher risks are identified, to effectively manage and mitigate those higher risks; and

4.5. have an independent audit function to test the system.

4.6. The Policies, Procedures and Controls should 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. **GSL** is required to appoint a management level officer as compliance officer (**"CO"**), who shall report directly, and periodically to the 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:

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5.2. has sufficient skills and experience to develop and maintain systems and controls (including documented policies and procedures);

5.3. has sufficient resources, including time and support staff;

5.4. has access to all information necessary to perform the AML/CFT compliance function;

5.5. ensure regular audit of the AML/CFT program;

5.6. 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

5.7. respond promptly to requests for information by the SECP/LEAs.

6. **HOW TO COMMUNICATE THE POLICIES AND PROCEDURES TO EMPLOYEES AND STAFF 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 braches through Inter-Office Memo ("IOM").

6.2. The CO must have the authority and ability to oversee the effectiveness of Securities Broker AML/CFT systems, compliance with applicable AML/CFT 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 or 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 the **GSL**, 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.

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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 **GSL** which include the following:

11.1.2. Account Opening Forms should be completed in the presence of the Customer with mandatory fill-in mandatory fields and all not relevant spaces shall be market as "Not Applicable or Crossed";

11.1.3. KYC forms shall be completed in the presence of the Customer;

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 **GSL** 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 the **GSL**;

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 the **GSL**;

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;

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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. **GSL** 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. **GSL** 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. **GSL** 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. **GSL** 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 the **GSL** from the crime;

12.4.2. monitory penalty from regulatory authorities; and

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

12.5. **GSL** 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.

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12.6. **GSL** 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. **GSL** shall have appropriate mechanism to provide risk assessment information to the Commission if required.

12.8. **High-Risk Classification Factors:**

12.8.1. **GSL** 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 the **GSL** 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 the **GSL** 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.

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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 the **GSL** 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. The **GSL** 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. The **GSL** 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 the **GSL**, 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.

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12.11. Low Risk Classification Factor:

12.11.1. Customer risk factors:

12.11.1.1. **GSL** shall rate a Customer as Low Risk and justify in writing 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. **GSL** rate the product, service, transection 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. **GSL** taking into account possible variations in ML/TF risk between different regions or areas within a country, shall 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. **GSL** 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;

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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 the **GSL** is willing and able to accept and correlate its Risk Mitigation Measures and Controls accordingly, for example:

13.1.2. If **GSL** 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 **GSL** determines 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 the **GSL** shall establish their Risk Tolerance, based on which the **GSL** 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 **GSL** 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. **GSL** shall consider the following Risk Mitigation Measures:

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

13.2.3. setting transaction limits for higher-risk Customers such as:

13.2.3.1. For Individual Customer, Rs. 5 million net of Sale and Purchase for a particular date;

13.2.3.2. For Corporate Customer, Rs. 25 million net of Sale and Purchase for a particular day.

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13.2.3.3. For Foreigner Individual, $ 1 million net of Sale and Purchase for a particular day.

13.2.3.4. For Foreigner Corporate, $ 5 million net of Sale and Purchase for a particular day.

13.2.4. requiring senior management approval for higher-risk transactions, including those involving PEPs;

13.2.5. determining the circumstances under which they may refuse to take on or terminate/cease high risk customers;

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

13.2.7. The Company shall also consider adopting appropriate risk management procedures for effectively managing Money Laundering/ Terrorist Financing risks by setting transaction limitations (i.e. limited deposits or withdrawals, until verification requirements are completed) and account monitoring or other appropriate risk management procedures.

14. HOW OFTEN GSL WILL UPDATE THE RISK ASSESSMENT?

14.1. Once the identification procedures have been completed and the business relationship is established, **GSL** 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. **GSL** shall conduct ongoing monitoring of their business relationship with its Customers. Ongoing monitoring helps the **GSL** to keep the due diligence information up-to-date, and review and adjust the risk profile of the customers, where necessary.

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

14.4. **GSL** will be required to update the Risk Assessment of their Customer as per following schedule or on the occurrence of a triggering event, whichever is earlier:

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15. *CUSTOMER DUE DILIGENCE (CDD:*

15.1. For Natural Persons:

15.1.1. **GSL** is required to know who its Customers are and it shall not keep anonymous accounts or accounts in fictions names. **GSL** 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. **GSL** 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. **GSL** 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, **GSL** 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.

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15.1.5. **GSL** 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. **GSL** shall verify the identification of a customer using reliable independent source documents, data or information including verification of CNICs from Verisys. Similarly, RPs shall identify and verify the customer's beneficial owner(s) to ensure that the RP understands who the ultimate beneficial owner is.

15.1.7. **GSL** shall ensure that they understand the purpose and intended nature of the proposed business relationship or transaction.

15.1.8. **GSL** hall 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. **GSL** 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 **GSL** 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

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15.2.3.3. not accepting the customer in accordance with its own risk assessments and procedures.

15.3. **GSL** 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. **GSL** 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 dealing with.

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 **GSL** 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;

15.5.1.2. commence a business relationship; or

15.5.1.3. perform the transaction.

15.5.2. **For Existing Customers:**

15.5.2.1. **GSL** shall terminate the relationship.

15.5.2.2. Additionally, **GSL** shall consider making a STR to the FMU.

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16. ENHANCED CUSTOMER DUE DILIGENCE MEASURES:

16.1. High Risk Persons or Transactions:

16.1.1. **GSL** 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.

16.1.5. Such body corporate, partnerships, associations and legal arrangements including non-governmental organizations or not-for-profit organizations which receive donations.

16.1.6. Customers from high risk areas in Pakistan (e.g. border areas, areas where there is significant ethnic or sectarian conflict) overseas branches/subsidiaries/correspondent

16.1.7. Banks in High Risk Jurisdictions, imports/exports to/from High Risk Jurisdictions, remittances received from High Risk Jurisdictions will all be at high risk of ML and TF. PEPs, High Net-Worth Individuals, Foreign and Non-Resident Clients will be at high risk.

16.1.8. Customers likely to pose a higher than average risk will be categorized as medium or high risk depending on their background, nature, and location of activity, country of origin and sources of funds etc. Enhanced Due Diligence measures will be applied based on the risk assessment.

16.1.9. If a prospective client refuses and/or reluctant to provide evidence of identity or other information properly which is requested as part of its Due Diligence, the business relationship will not proceed further. In the case of an existing relationship, the company may consider the relationship to be ceased by restricting the trading & transfer of securities facility of such client

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and shall only allow it to close out the open position in a controlled environment.

16.2. **High Risk Business Relationship:**

16.2.1. **GSL** shall apply enhanced CDD measures for high risk business relationships include:

16.2.2. Obtaining additional information on the applicant/customer (e.g. 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. **GSL** 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;

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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. **GSL** 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. **GSL** 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. **GSL** may conduct SDD in case of lower risks identified by it. However, the **GSL** 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, **GSL** 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 the **GSL** to rely on third parties for verifying the identity of the applicants and beneficial owners.

17.1.4. Where **GSL** 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. **GSL** may rate a Customer as low risk justifying it in writing and low risk Customers my included 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. **GSL** 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:

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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.

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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. **GSL** 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, the Securities Broker 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. GSL 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;

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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. **GSL** 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, **GSL** shall consider filing a STR.

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.

19.1A.The basis of deciding whether an STR should be filed or not shall be documented and kept on record together with all internal working done in relation to a suspicion irrespective of the fact that transaction is subsequently reported or not.

19.1B. The Company shall note that STRs, including attempted transactions, should be reported regardless of the amount of the transactions; and, the CTRs should be reported for the transactions of rupees two million and above as per requirements laid down in the purpose Regulations.

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

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19.2.1. **GSL** 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. **GSL** shall put on enquiry if transaction is considered unusual.

19.2.3. **GSL** 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 **GSL** 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 **GSL** 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:

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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, **GSL** will need to approach such situations with caution and make further relevant enquiries.

19.4.3.2. Where the **GSL** 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 **GSL** decides that a disclosure should be made, the law requires the **GSL** to report STR without delay to the FMU, in standard form as prescribed under AML Regulations 2015. The STR prescribed reporting form can be found on FMU website through the link http://www.fmu.gov.pk/docs/AMLRegulations2015.pdf.

19.4.4. **Reporting to Commission and FMU:**

19.4.4.1. **GSL** 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), **GSL** shall consider filing a STR.

19.4.4.4. Where an attempted transaction gives rise to knowledge or suspicion of ML/TF, **GSL** 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 **GSL** shall ensure that appropriate action is taken to adequately mitigate its risk being used for criminal activities.

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19.4.4.6. The Securities Broker 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. A risk exists that Customers could be unintentionally tipped off when **GSL** is seeking to complete its CDD obligations or obtain additional information in case of suspicion of ML/TF.

19.5.1.2. The applicant/customer's awareness of a possible STR or investigation could compromise future efforts to investigate the suspected ML/TF operation.

19.5.1.3. If **GSL** forms a suspicion of ML/TF while conducting CDD or ongoing CDD, it should take into account the risk of tipping-off when performing the CDD process.

19.5.1.4. If **GSL** reasonably believes that performing the CDD or on-going process will tip-off the applicant/customer, it may choose not to pursue that process, and should file a STR.

19.5.1.5. **GSL** shall ensure that their employees are aware of, and sensitive to, these issues when conducting CDD or ongoing CDD.

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20. *RECORD KEEPING PROCEDURES:*

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

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

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

20.1.3. ***THE COMPANY SHALL KEEP RECORDS OF ALL THE CDD MEASURES AS WELL AS MAINTAIN PROPER RECORDS OF DATA, DOCUMENTS AND LOGS ETC.***

20.2. **GSL** 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 **GSL** 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. **GSL** 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:

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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 informationmust 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 the **GSL**.

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

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.

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

20.7.2. details of securities and investments transacted including:

20.7.2.1. the nature of such securities/investments;

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20.7.2.2. valuation(s) and price(s);

20.7.2.3. memoranda of purchase and sale;

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.

21. *EMPLOYEE SCREENING AND TRAINING:*

21.1. As part of the **GSL** Anti Money Laundering program, all Employees are expected to be fully aware of its Anti-Money Laundering policies and procedures.

21.2. Each Employee is required to read and comply with this Compliance Manual, address concerns to the Compliance Officer and sign the acknowledgement form confirming that he/she has read and understands SECP AML and CFT Policies and Procedures.

21.3. To ensure the continued adherence to SECP AML and CFT Policies and Procedures, all Employees are required to reconfirm their awareness of the contents of this Compliance Manual by signing the acknowledgement form annually, or more frequently, as required by the Compliance Officer.

21.4. All Employees are required;

21.4.1. At a time specified by the Compliance officer, to undertake training programs on AML and CFT Policies and Procedures.

21.4.2. To get trained in how to recognize and deal with transactions which may be related to money laundering.

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21.4.3. To timely escalate and report the matter to the Compliance Officer.

21.4.4. To get themselves acquainted with SECP AML & CFT Rules & Regulations.

21.4.5. To comply with the requirements of Rules & Regulations.

22. RISK-BASED APPROACH DURING THE CHALLENGING ENVIRONMENT/EXTRAORDINARY CIRCUMSTANCES:

The criminals may take advantage of any unprecedented situation such as economic uncertainty, fears of pandemics, forced seclusions, etc, to carry out financial fraud and exploitation scams including but not limited to investment and product scams. In this extraordinary circumstance when there is a probability to face difficulties in carrying out CDD, the following risk-based approach will be used by the Company:

1. Scanned/Digital copies of documents will be accepted in such a situation as described above, to be followed by obtaining the originals at a reasonable later time when the situation has settled down;
2. The Company shall accept recently expired government-issued identification in order to verify the identity of an individual (although still required to determine the authenticity of the identification);
3. Where customer's identity will be verified face-to-face, delayed verification of identity for establishing new business relationships will be adopted as permitted under section 6(5) of the SECP AML/CFT Regulation, 2018 dealing with CDD, provided that;

   a) this occurs as soon as reasonably practicable;
   b) this does not interrupt the normal conduct of business; and
   c) the ML/TF risks are effectively managed;
4. Once customers have provided copies of identification documents, additional verification will be done using immediately available video call feature to compare the physical identity of a customer with scanned copies of identification documents;
5. Procedures such as telephoning the customer to ask questions about their identification, understanding and obtaining information on the purpose and intended nature of the business relationship or other questions that would assist in ascertaining whether the customer is who they claim and categorize to be;

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6. Obtaining disclosures from customers to verify certain types of information provided and the accuracy and completeness of documents;
7. The Company shall use and allow digital/online payment methods to carry out transactions within the prescribed limits.

24. The Company shall maintain the database of all its customers, their beneficial owners/associates, board of directors, trustees, and office bearers of its customers, for the required matching, screening, etc.

24.1. Following the above, required actions will be taken immediately on the receipt of notifications issued by the Ministry of Foreign Affairs on United Nations Security Council Resolutions, intimation from the National Counter Terrorism Authority or Securities and Exchange Commission of Pakistan regarding updates in the list of proscribed persons.

24.2. The Company shall allocate appropriate human/technological resources to immediately scan their customer databases, their beneficial owners/associates, board of directors, trustees, and office bearers of its customers, for any matches with the stated designated/proscribed person(s)/entity(ies).

24.3. The Company shall not form business relationship with the person(s)/entity(ies) if the name(s) are appearing in the said list.

24.4. The Company shall maintain a list of all such customers/accounts where the business relationship was refused or needed to be closed on account of false verification.

24.5 The requirements as contained in AML/CFT Regulations 2020 dated 28 Sept, 2020 shall be followed in letter and spirit.

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