



INTERACTIVE SECURITIES (PVT) LIMITED

Room # 80, Second Floor, Pakistan Stock Exchange Building, I.I. Chundrigar Road, Karachi-74000.

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Trading Right Entitlement Certificate Holder of Pakistan Stock Exchange Limited
(Formerly: Karachi Stock Exchange Limited)

THE INTERACTIVE SECURITIES (PRIVATE) LIMITED [ANTI- MONEY LAUNDERING (AML)/ COUNTERING FINANCING OF TERRORISM (CFT)] POLICY

UPDATED IN LINE WITH

**THE SECP (ANTI MONEY LAUNDERING AND COUNTERING
FINANCING FOR TERRORISM) REGULATIONS, 2020**

ESTABLISHED UNDER

ANTI MONEY LAUNDERING ACT, 2010

DEVELOPED UNDER

**THE SECP GUIDELINES ON ANTI-MONEY LAUNDERING, COUNTERING
FINANCING OF TERRORISMANDPROLIFERATION FINANCING (UPDATED
June, 2024)**

"The Policy document is for internal use of staff of **INTERACTIVE SECURITIES (Pvt.) Ltd.** and should be accorded the same level of secrecy as is done for other internal policies of the **ISPL**.

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PURPOSE

Formulation and revision of this policy is in line with requirements of Anti-Money Laundering (AML) Act 2010, Anti-Terrorism Act (ATA) 1997 and applicable SECP[Anti Money Laundering(AML)/ Countering Financing of Terrorism (CFT)] Regulations, 2020&SECP Guidelines on Anti-Money Laundering, Countering Financing of Terrorism and Proliferation Financing (**updated April 2020**) on Risk Based Approach amended from time to time, United Nations Security Council (Freezing& Seizure) Order, 2019 and NACTA Guidelines on Actions to be taken by Competent Authorities for Implementation of United Nation Security Council Resolution No. 1373 along with international best practices, to prevent the possible use of Brokerage House as a conduit for Money Laundering or Terrorist Financing activities.

Amid increasing focus of Securities Brokers and regulatory bodies on curbing Money Laundering (ML) / Terrorist Financing (TF) and Proliferation Financing (PF) activities, Securities Brokers are required to have comprehensive AML / CFT Policy entailing the following guidelines on the Broker's ML/TF/PF risk management approach to identify, assess, manage and mitigate these risks on an ongoing basis.

The Securities Brokers are required to manage these risks throughout the life cycle of its customers related to channels/products/jurisdictions/services and relationships, starting from onboarding of new business relationships till closure as well as for all walk in or occasional customers.

In addition to the above, the international AML / CFT standards such as Financial Action Task Force (FATF) and Asia Pacific Group (APG) on Money Laundering on Customer Due Diligence, and United Nations (UN) resolutions concerning sanctions are to be followed to prevent the possible use of the Broker as a conduit for money laundering or terrorist financing activities.

To further strengthen the regulatory framework to curb Money Laundering and Terrorist Financing, the SECP has issued AML/CFT Regulations and its subsequent amendments from time to time, covering the following aspects:

BRIEF ON SECP AML/CFT REGULATIONS FOR SECP REGULATED PERSONS ("RPs"):

Regulation	Areas Covered
CHAPTER –II – RISK ASSESSMENT AND MITIGATION	Risk Assessment; Risk Mitigation and Applying Risk Based-Approach; New Products, Practices and Techniques' Customer Due Diligence (CDD); Beneficial Ownership of Legal Person and Legal Arrangements; Identification of Beneficiary for Life Insurance or Takaful Policies; Enhanced Due Diligence (EDD); Politically Exposed Persons (PEP); Simplified Due Diligence (SDD); Reliance on Third Parties; Ongoing Monitoring; Reporting of Transactions (STRs/CTRs); and Counter Measures against High Risk Countries.



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Regulation-4 Risk Assessment	<ul style="list-style-type: none"> Identifying, assessing and understanding Money Laundering (ML)/Terrorism Financing (TF) in relation to customers, their jurisdiction or countries, jurisdictions or countries RP has operations or dealings in, products, services, transactions and delivery channels RP is offering. This regulation also prescribes appropriate steps for identifying, assessing and understanding ML/TF risks.
Regulation-5 Risk Mitigation and Applying Risk Based Approach	Implementation of counter ML and TF measures to ML and TF Risk with respect to size of business of RP by developing and implementing policies, procedures and controls duly approved by RP's Board, monitoring their implementation, performing enhanced measures to manage and mitigate High Risk if identified, need of independent audit function to test the system.
Regulation-7 New Products, Practices and Technologies	<ul style="list-style-type: none"> Identification and assessing ML and TF Risk that may arise in relation to New Products and Business Practices, use of new or developing technologies. This Regulation prescribes undertaking risk assessment prior to launch of products, practices and technologies and taking measures to manage and mitigate their risks. The Regulation also covers paying special attention to new products, business practices and new technologies that favor anonymity.
CUSTOMER DUE DILIGENCE (CDD) AND BENEFICIAL OWNERSHIP	
Regulation -8 Customer Due Diligence	<ul style="list-style-type: none"> CDD measures for Identifying and Verifying New and Existing Customers and/or beneficial owners on the basis of documents, data or information obtained from customer and/or from independent sources before, during or after course of establishing a business relationship. CDD measures for understanding and obtaining information on the purpose and intended nature of business relationship. CDD measures also include monitoring of accounts/transactions on ongoing basis to ensure that these being conducted are consistent with RP's knowledge of customer, his business and risk profile including his source of funds and data/information for taking prompt action in case of material departure from usual and expected activity. This Regulation covers the requirement of documents as per Annexure-I. Prohibitions from establishing business relationship with entities and /or individuals that are DESIGNATED under UNSCR adopted by Govt. of Pakistan, PROSCRIBED under Anti-Terrorism Act, 1997 and associates/facilitators of DESIGNATED / PROSCRIBED



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	<p>entities/individuals</p> <ul style="list-style-type: none"> Steps to determine the Person acting on behalf of a Customer including Authority, Identification and Verification of Authorized Person and the Customer. Categorization of customers as High or Low Risk as outcome of CDD. Maintaining list of Customers/Accounts where business relationships were refused or needed to be closed on Negative Verification. Non-satisfactorily CDD measures, account shall be closed or business relationship terminated and considering to warrant STR. Doubt of tipping-off the Customer due to CDD measure, filing STR without CDD process. Govt. entities accounts to be opened on their own names operated by officers on production of Special Resolution or Authority from concerned Admin Dept. or Ministry duly endorsed by MoF or Finance Dept./Division of concerned Govt.
<p>RegulationS-13, 14, 16 & 17</p> <p>Beneficial Ownership of Legal Persons and Legal Arrangements.</p>	<p>Acquisition and usage of information and data from reliable sources for a Legal Person for following CDD measures/purposes: -</p> <ul style="list-style-type: none"> Understanding its business nature, ownership and control structure; Identifying and verifying identity of Natural Person who owns or ultimately has controlling ownership interest in Legal Person. Where no Natural Persons are identified, identify the Natural Person having Executive Authority or equivalent or similar positions in the Legal Person. <p>Acquisition and usage of information and data from reliable sources for a Legal Arrangement for following CDD measures/purposes: -</p> <ul style="list-style-type: none"> For Trusts, identification and verification of identity of the settler, the trustee, the protector, the beneficiaries and Natural Person exercising ultimate ownership and control over the Trust. For other type, identification and verification of identity of the Natural Person having ultimate ownership and control over such Legal Arrangement.
<p>Regulation – 19</p> <p>Ongoing Monitoring including STRs and CTRs</p>	<ul style="list-style-type: none"> Consistency of Transactions with RP's Knowledge of Customer, its business and risk profile and source of funds (where appropriate). Obtaining information and examine the background and purpose of all complex and unusual transactions having no apparent economic or visible lawful purpose and background. Periodic review of information and beneficial owners and ensuring them up to date and relevant, by reviewing existing records, particularly of High-Risk Customer. Revision of Customers' profiles keeping in view the spirit of KYC/CDD and bases to be documented. Filing of STR on reasonable grounds for suspension, RP may consider to retain the customer:



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	<ul style="list-style-type: none"> ○ To substantial and document the reasons ○ Proportionate risk mitigation measures including Enhanced Ongoing monitoring. • Freezing of funds and assets of Designated/Proscribed entity/individual by UNSCR and Anti-Terrorist Act and their associates/facilitators and reporting to Commission. <p>Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs)</p> <ul style="list-style-type: none"> • Guidelines for Reporting of Complex, Unusually Large, and out of pattern Transactions and Currency Transactions.
Regulation 20 – Existing Customers	<ul style="list-style-type: none"> • CDD Requirements of Existing Customers on the basis of Materiality and Risk. • Blocking of Account of the customers, if customers fails to provide information / documents within One Month of the Notice. • Activation of In-active / Dormant Account subject to conduct of NADRA Verisys or Bio-metric verification and after obtaining attested copy of customers' valid identity documents.
Regulation – 21 Enhanced Due Diligence (EDD) & Politically Exposed Persons (PEPs) and their Close Associates	<ul style="list-style-type: none"> • Requirement of implementing Internal Risk Management Systems, Policies, Procedures and Controls for Customer having High Risk of ML/TF. • Circumstances where Customer presents High Risk of ML/TF also include: - <ul style="list-style-type: none"> ○ Customers belonging to non-compliant countries with AML Regulations according to FATF. ○ Body corporate, partnerships, associations and Legal Arrangements including NGOs and NPOs which receive donations. ○ Legal Person or Arrangement with complex ownership structure. • EDD measures in proportionate to risk posed to business relationship by Customer having High Risk or notified as having High Risk by SECP. • EDD measures include approval from Senior Management, establishing the Source of Wealth and/or Funds or Beneficial Ownership of Funds, enhanced monitoring of business relationship. • Requirement of Internal Risk Management Systems, Policies, Procedures and Controls for determining a Customer as PEP. • EDD Measures include approval from Senior Management, establishing the Source of Wealth and/or Funds or Beneficial Ownership of Funds, enhanced monitoring of business relationship for: - <ul style="list-style-type: none"> ○ In case of foreign PEPs; and ○ In case of domestic PEPs posing High Risk in business relationship in addition to other requirement of these



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	<ul style="list-style-type: none"> • EDD Measures are applicable on family members and close associates of all PEPs.
Regulation – 22 Counter Measures Against High-Risk Countries	<ul style="list-style-type: none"> • Adoption of counter measures including EDD proportionate to the Risk, to the business relationship and transactions with Customers belonging to High-Risk Countries called by FATF and/or notified by Fed. Govt.
Regulation - 23 Simplified Due Diligence	<p>Where Low Risk is identified through risk analysis and adequate checks and controls, SDD or reduced CDD / KYC measures: -</p> <ul style="list-style-type: none"> • Decision to rate Low Risk a customer to justified in writing. • Low Risk cases may include: <ul style="list-style-type: none"> ○ RP and Banks subject to combat ML and TF requirements consistent with FATF recommendations and supervised. ○ Public Listed companies. ○ Insurance policies where annual premium is less than Rs. 100K or single premium is less than Rs. 250K. ○ Group Insurance policies ○ Pension superannuation or similar scheme providing retirement benefits to employees. ○ Financial products or services. • SDD measures include reducing identification updates, degree of ongoing monitoring and scrutinizing transactions and non-collection of specific information.
Regulation – 24 Reliance on Third Parties	<ul style="list-style-type: none"> • Obtaining of identification information, beneficial ownership and/or business nature. • Provision of copies of identification data and other documents relating CDD requirement without delay. • Third party is regulated and supervised or monitored for. • Confidentiality and non-disclose agreement. • In case of third party of same financial group, CDD and record-keeping requirements and programs against ML and TF. • Ongoing monitoring and ultimate responsibility of AML/CFT obligation of RP.
TFS OBLIGATIONS	
Regulation – 25 TFS Obligation	<p>Undertaking TFS obligations under United Nations (Securities Council) Act 1948 and /or Anti-Terrorism Act 1997 and Regulations made there under including:</p> <ul style="list-style-type: none"> • Develop mechanism, process and procedures for screening and monitoring customer, potential customers and their BOs/Associates to detect any matches or potential matches for designated / proscribed persons.



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- In case of positive or potential match, SB shall immediately:
 - Freeze relevant funds and assets, block transaction without prior notice;
 - Prohibit from making any funds or other assets, economic resources, or financial and other services and funds;
 - Reject the transaction or attempted transactions or the customer.
 - File a STR to FMU and notify the Commission;
 - Implement any other obligation under AML Act 2010, UNSC Act and Anti-Terrorism Act and any other regulations made there under.
- The Securities Broker is prohibited, on an ongoing basis, for providing financial services to proscribed /designated entities and person or those who are known for their association with such entities and persons.

CHAPTER III

RECORD KEEPING

Regulation– 26

Record Keeping

- Maintenance & Retention of Customer and Transactions related records for minimum period of **five (5) years** from completion of the transaction.
- Ensure of timely making available, all CDD and transaction record to Commission, FMU and LEAs, whenever required.

COMPLIANCE PROGRAM

Regulation – 27

Compliance Program including screening and training of employees.

- Mandatory need for appointment of management level CO, reportable to Board or to another equivalent executive position or committee;
- Timely access of Customers' record and relevant information.
- Responsibilities of CO.
- Screening procedures for hiring Employees.
- Comprehensive Employee due diligence.
- Suitable training program for **relevant employees on annual basis**.

Regulation – 28

Corporate Groups

- Group-wise programs against AML/CFT which include the following measures:
 - Policies and procedures for sharing information for CDD and ML/TF Risks management.
 - Group-level compliance, audit and/or AML/CFT functions, for Customers, Accounts and Transactions.
 - Adequate safeguard on confidentiality and use of information.

Regulation – 29

Foreign Branches

- Need for paying attention to foreign branches and subsidiaries of RP which do not or insufficiently comply with FATF recommendations.
- In case of difference in AML/CFT requirements in both jurisdictions,



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including Financial Group	<ul style="list-style-type: none">• In case of conflict and inability to fully observe High Standards, RP shall report to Commission.
Regulation – 30 Correspondent Relationship	<p>Measures to performed when forming a correspondent relationship:</p> <ul style="list-style-type: none">• Assessing the suitability of respondent FI;• Understanding and documenting the respective AML/CFT responsibilities of FI and respondent FI.• Accessing respondent FI in context of sanctions/embargoes and Advisories about risk;• Approval from Senior Management before providing correspondent service to new FI.• Documentation of the basis of satisfaction.• Not entering or continuing correspondent relationship with Shell FI.

SECP GUIDELINES FOR IMPLEMENTING AML/CFT REGULATIONS:

FIRST VERSION OF SECP GUIDELINES ON ANTI-MONEY LAUNDERING, COUNTERING FINANCING OF TERRORISM, AND PROLIFERATION FINANCING, 2018

In addition to the AML/CFT Regulations, the SECP issued its first Guidelines on September 18, 2018 on Implementation of AML/CFT Framework under the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 to strengthen trade related Anti Money Laundering/Countering Financing of Terrorism (AML/CFT) regime and restrict possible misuse of Brokerage Industries in order to accelerate the level of outreach of the Securities Brokers for achieving the objective of financial inclusion and strengthening the controls related to Money Laundering (ML)/ Terrorist Financing (TF) risks.

SECOND VERSION OF SECP GUIDELINES ON ANTI-MONEY LAUNDERING, COUNTERING FINANCING OF TERRORISM, AND PROLIFERATION FINANCING, 2020

The SECP has revised its Guidelines in line with amendments incorporated in SECP AML/CFT Regulations and review of the latest National Risk Assessment of Pakistan in 2019 ("NRA 2019").

- According to NRA 2019, RP should have policies and procedures to prevent the misuse of technological development in ML/TF scheme, and to avoid or mitigate all technologies that favor anonymity. NRA 2019 suggested limitations on the use of non-face to face business, or on virtual business to avoid opening up of alternative possibilities for ML/TF and fraud, especially High-Risk industries such as Brokerage.
- NRA 2019 has determined the risk of corruption and therefore the risk of providing financial services to Politically Exposed Persons ("PEPs") is high. As per NRA 2019, all domestic PEPs must be scrutinized, particularly for their source of funds wealth and assets.
- Both by international standards and in Pakistan's National Risk Assessment, Non Profit Organizations ("NPOs") are classified as a High Risk Sector for TF.



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- (d) RPs may conduct Simplified Due Diligence (SDD) in case of lower risks identified by them in line with NRA 2019. RP should pay particular attention to the level of risk assigned to the relevant sector, type of Customer or activity as mentioned in NRA 2019.
- (e) RP must also consider guidance material to determine the level of risk involved in relation to Customers, Products/Services, Delivery Channels and Countries/Region provide in NRA 2019.
- (f) For low risk environment, RP may asses risk by only considering the Likelihood of ML/TF/PF activity involving its identification combined with business experience, and guidance available through SECP, NRA 2019, and FATF.
- (g) RP should have appropriate policies, procedures and controls that enable them to manage and mitigate effectively the inherent risks that they may identified, including risk identified in NRA 2019.
- ..2 The above stated Regulations/framework should be emphasized in the Broker's AML/CFT Policy, Procedures and Controls for meticulous compliance as the Securities Broker maintains zero tolerance for regulatory non-compliances.
- SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN (ANTI MONEY LAUNDERING AND COUNTERING FINANCING OF TERRORISM) REGULATIONS, 2020 REVAMPING EARLIER SECP (AML/CFT) REGULATIONS, 2018**
- ..1 In additions to regulatory requirements applicable on the Regulated Persons of the Securities and Exchange Commission under the SECP (Anti Money Laundering and Countering Financing of Terrorism) Regulations 2018, the following new regulatory requirements have been added under the SECP (AML & CFT) Regulations, 2020 promulgated on September 28, 2020:
- (a) Few definitions have been amended in line with Anti-Money Laundering Act, 2010 updated till 2020 and few definitions have been omitted and some have been added in the new version of SECP (AML/CFT) Regulations, 2020.
- (b) Suspicious Transactions Reporting and Currency Transactions have been aligned with their requirements under Anti Money Laundering Act, 2010.
- (c) These AML/CFT Regulations further elaborated the obligation of the Securities Broker to develop mechanisms, processes and procedures for screening and monitoring customers, potential customers and their beneficial owners/associates to detect any matches or potential matches with the stated designated / proscribed persons/entities in the SRO and notified by MOFA, NACTA and MOI;
- (d) Targeted Financial Sanctions (TFS) Obligations for a Securities Broker to deal with funds and assets without delay including blocking of transactions, without prior notice; and
- (e) Procedure for prohibiting from making any funds or other assets and rejecting the transactions or attempted transactions or the customer, if relationship has not commenced.

In order to taking revised SECP (AML/CFT) Regulations 2020 into effect, the Securities Broker is required to revised its AML/CFT Policy, Procedures and Controls to mitigate the ML/TF/PF risk which may be triggered by establishing business relationship with the customers or potential customers.



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AML/CFT POLICIES, PROCEDURES AND CONTROLS OF REGULATED PERSON INCLUDING SECURITIES BROKER
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1. The ISPL under the Compliance Program prescribed under the SECP AML/CFT Regulations to develop and implement following internal Policies, Procedures and Controls which are approved by its Board of Directors to enable such RPs to effectively manage and mitigate the risk that are identified in the risk assessment of ML/TF/PF or notified by the Commission.
2. The Broker's AML/CFT Policies, Procedures and Controls provide the mechanism to the Broker to detect and control ML and TF for preventing the abuse of their financial products and services.
3. The SECP Guidelines supplement the AML/CFT Regulations by clarifying and explaining the general requirement of the regulatory framework to help the Broker in applying national AML/CFT measures. The Broker's AML/CFT Policies, Procedures and Controls define the mechanism for ensuring effective compliance culture for AML/CFT Framework at Broker's end.

SCOPE

This policy applies to each and every business segment and all employees of **INTERACTIVE SECURITIES (Pvt.) Ltd.** to effectively mitigate the risks of ML / TF / PF. As the Broker is prone to the risk of being misused by criminal elements for their ulterior motives, this policy will be a guiding document for employees to address the risks stemming from Customers or Transactions in an effective way of using Risk Based Approach ("RBA").

The management will continuously refine its Customer Due Diligence processes using the RBA, through implementation of system based Risk Rating environment for Customer Risk Profiling. Standard Operating Procedures (SOPs) along with various guidance documents and systems are provided to the branches / field staff from time to time to ensure effective execution of the process to identify & mitigate ML / TF / PF risks.

Considering the huge size of undocumented sector in the economy, execution of due diligence process is complex and time consuming. However for the compliance of regulatory requirements and to contain the customer related risks, the management will make best efforts to conduct proper due diligence of every existing and prospective Customer.

Moreover, the management will handle Terrorism Financing ("TF") as separate risk and will regularly conduct TF risk assessment to identify threats posed by TF and to gauge efficacy of the controls to mitigate the inherent risk in such activities in line with the Pakistan National Risk Assessment on ML/TF 2019 ("NRA 2019") update. Accordingly existing controls shall be regularly evaluated in the light of prevailing and emerging risks and additional appropriate actions/controls to identify, assess and mitigate the risks; will be implemented.

OBJECTIVES

RISK MANAGEMENT FACTORS:

- (a) To prevent criminal elements from using the Brokerage House for money laundering activities from any of its branch or channel.
- (b) To safeguard the Brokerage House from being used as a conduit in Terrorism and Proliferation Financing.
- (c) Ensuring that only bona fide and legitimate customers are accepted.



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RISK MITIGATION MEASURES:

- (a) To verifying the identity of customers using reliable and independent sources.
- (b) To ensure that proscribed individuals or entities and their affiliates or associates are not having any trading relationship or being provided any service from the INTERACTIVE.
- (c) To conduct Ongoing Monitoring of Customer's accounts and transactions to prevent or / and detect potential ML / TF/PF activities.
- (d) To implement Customer Due Diligence process using Risk Based Approach.
- (e) To ensure implementation of Targeted Financial Sanctions (TFS) related to Terrorism & Proliferation Financing (TF & PF).
- (f) To manage reputational, operational, legal and concentration risks etc.
- (g) To put in place appropriate controls for prevention, detection and reporting of Suspicious Activities in accordance with applicable laws/laid down procedures.
- (h) To comply with the applicable laws, regulatory requirements and guidelines etc.

ESTABLISHMENT OF DEPARTMENTS/FUNCTIONS AND APPOINTMENT/DESIGNATION OF OFFICERS

ESTABLISHMENT OF COMPLIANCE DEPARTMENT/FUNCTIONS AND APPOINTMENT OF COMPLIANCE OFFICER

- (a) As required under regulation 29 of the Securities Brokers (Licensing and Operations) Regulations, 2016 (the "Broker Regulations"), the INTERACTIVE shall, as applicable, either designate or appoint a whole-time Compliance Officer, fulfilling the Fit and Proper criteria specified in the Regulations.
- (b) The Compliance Officer should be a Senior Management level officer as defined under the Regulation 2(1) (f) of the AML/CFT Regulations and the Regulation 2(1) of the Brokers Regulations.
- (c) The Compliance Officer shall report directly to the board of directors or chief executive officer or committee.
- (d) The Compliance Officer as well as any other person appointed to assist him shall have timely access to all Customer record and other relevant information, which they may require to discharge their function.
- (e) The Compliance Officer shall have Job Descriptions / Responsibilities included but limited to the responsibilities described under the Brokers Regulations and Regulation 27(2)(c) of the AML/CFT Regulations.
- (f) The function of Compliance Officer cannot be outsourced, only limited functions such as screening or database checks can be performed by another entity, except where the third party is part of a group and is properly supervised by a competent authority.
- (g) Qualification and experience of Compliance Officer shall preferably be in accordance with the Fit and Proper Criteria prescribed under the Brokers Regulations.

ESTABLISHMENT OF INDEPENDENT INTERNAL AUDIT DEPARTMENT/FUNCTIONS AND APPOINTMENT OF INTERNAL AUDITOR OFFICER/AUDIT OFFICER

- (a) The ISPL shall put in place effective and operationally independent Internal Audit function/department having appropriate trained and competent staff.
- (b) The Internal Auditor/Internal Audit function shall directly report to the Board of Directors or its Audit Committee as prescribed under the Brokers Regulations.
- (c) The Internal Audit function shall be headed by a dedicated or designated head of Internal Audit possessing relevant qualification and experience.



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- (d) The Audit Committee, if established by the Board shall be responsible to monitor and review the effectiveness of Internal Audit function/department.
- (e) Internal Audit Function can be outsourced to third party through the policies and procedures in relation to outsourcing.
- (f) The **ISPL** shall conduct Due Diligence of Outsourcing Service Provider (OSP) as Fit and Proper to perform the audit activity that is being outsourced.
- (g) The **ISPL** shall have written Outsourcing Agreement clearly sets out the obligations of both parties.
- (h) The **ISPL** shall develop a contingency plan and strategy to exit the arrangement in the event that OSP fails to perform the outsourcing activity as agreed.
- (i) The **ISPL** shall be ultimate responsible for meeting AML/CFT requirements.
- (j) Internal Audit Officer shall have Job Description / Responsibilities included but limited to the responsibilities described under the Brokers Regulation and the AML/CFT Regulations.

RISK ASSESSMENT AND MITIGATION

RISK ASSESSMENT:

The **ISPL** must assess each Customer's risk to allow for correct application of Enhanced Due Diligence, Standard, Simplified or Special measures for PEPs and other designated categories as per the Regulations. Necessary minimum customer risk rating categories are:

- (a) High Risk Category
- (b) Medium Risk Category
- (c) Low Risk Category
- (d) PEP (Special High Risk Category as per NRA 2019)

RISK MITIGATION MEASURES THROUGH CUSTOMER DUE DILIGENCE (CDD)

The following are the measures to mitigate the risks associated to Money Laundering (ML), Terrorist Financing (TF) and Proliferation Financing (PF) activities through the customers or potential customers:

(a) CUSTOMER IDENTIFICATION

ISPL will serve only the genuine person(s) and all-out efforts would be made by the management to determine true identity of its customers. Minimum set of documents shall be obtained from various types of customer(s), at the time of opening account, as prescribed in Annexure-I to the SECP AML/CFT Regulations.

The Customer relationship is only established on the strength of:

- (a) In case of Natural Person, valid CNIC / SNIC / Passport / NICOP/ SNICOP/ POC / ARC / POR /Form B / Juvenile Card number;
- (b) Where the customer is not a Natural Person, the registration/ incorporation number, business registration number or special resolution/authority;
- (c) In case of government accounts/autonomous entities (as applicable).
- (d) For **non-face-to-face** customers, the management shall put in place suitable operational procedures to mitigate the risk(s) attached with non-face-to-face prospective customer(s) and establish identity of the client.

Moreover, the management shall not rely on third parties to perform any CDD measures as prescribed by the SECP.



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(b) CUSTOMER VERIFICATION

The management of shall identify the Beneficial Ownership of accounts/ transactions by taking all reasonable measures. Identity (ies) of the customers and Beneficial Owner will be verified using reliable independent sources including NADRA Verisys or Biometric Verification. Verification of the identity of the customers and Beneficial Owners shall be completed before business relations are established.

Extra care is essential where the customer is acting on behalf of another person, and reasonable steps must be taken to obtain sufficient identification data to verify the identity of that other person as well. For customers that are Legal Persons or for Legal Arrangements, branches shall take reasonable measures to:-

- (a) Understand the ownership and control structure of the customer;
- (b) Determine and verify the natural persons who ultimately own or control the customer. This includes those persons who exercise ultimate effective control over a Legal Person or Arrangement.
- (c) Identity documents, wherever required as per updated AML/CFT Regulations, shall be invariably verified by utilizing on-line facility of Bio Metric Verification and / or NADRA VERISYS and Verification of the identity of the customers and Beneficial Owners shall be completed before business relationship is established or a transaction is processed.

(c) CUSTOMER ACCEPTANCE

The Customer will only be accepted once above given formalities have been completed in letter and spirit. Following accounts shall not be opened/maintained by the Broker where;

- (a) Identity, beneficial ownership, or information on purpose and intended nature of business relationship is not clear.
 - (b) Name of the individual customer/organization (including such individuals who are authorized to operate account(s) and the members of governing body/directors/trustees of an entity) appears in the Proscribed/Sanctioned / Specially Designated Nationals (SDNs) entities lists.
 - (c) Proscribed entities and persons or those who are known to be associated with such entities and persons, whether under the proscribed name or with a different name.
 - (d) Anonymous / fictitious (Benami) or numbered accounts.
- ## (d) CDD FOR WALK-IN-CUSTOMERS:

- (e) Walk-in-customers shall only be entertained, once due diligence measures for transactions relating to such customers as prescribed by the applicable SECP AML/CFT Regulations/guidelines along with international best practices have been complied with.
- (f) For walk-in-customers / occasional customers, to establish and validate the true identity of the person(s) executing the transactions either for self or if the person is acting on behalf of some other person(s), complete originator information must be obtained and identities must be invariably verified as directed under the regulations; using reliable, independent source of information, i.e., Biometric Verification or NADRA Verisys in line with SECP directive on use of Biometric Technology.
- (g) Further, name clearance should also be obtained against sanctioned lists through Central Database for Sanction Screening for walk in customer executing the transaction to ensure that the person is not a proscribed person/entity.



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(e) CDD FOR EXISTING CUSTOMERS:

- ii.2.e.1 ISPL shall apply CDD requirements to its existing customers on the basis of materiality and risk and shall conduct due diligence on existing relationship at appropriate time taking into account the following:
- (a) Whether and when CDD measure have previously been undertaken; and
 - (b) Adequacy of data obtained.
- ii.2.e.2 The customers who opened accounts with old NICs, the INTERACTIVE shall ensure the following:
- (a) Attested copies of identity documents shall be presented in its record;
 - (b) Without identity documents accounts shall be blocked after serving one (1) month prior notice for all withdrawals until all subject regulatory requirements are fulfilled;
 - (c) Upon submission of attested copy of identity document and verification of the same from NADRA Verisys or Biometric Verification, the blockage shall be removed.
- ii.2.e.3 The Customers whose accounts are dormant or in-operative, withdrawal shall be not be allowed until the account is activated on the request of the Customer on following basis:
- (a) NADRA Verisys or Biometric Verification has been done; and
 - (b) Attested copy of customer's valid identity document.

(f) TARGETED FINANCIAL SANCTIONS (TFS) MANAGEMENT

In order to comply with the Targeted Financial Sanctions regime, the management will devise effective system and controls to safe guard the bank from being exploited by the terrorists for TF/PF. In this regard, all the relationships (customers/non-customers i.e. walk in customers, shareholders, directors, third party service providers/vendors) will be screened against the prescribed sanctions lists; both local and international before establishment of the relationship. Further, all the relationships will be screened against the sanctioned lists on periodic basis as well.

(g) ACCOUNTS AND TRANSACTIONS MONITORING:

The Operations Department shall update expected monthly credit turnover limits in the system and/ or revise CDD profile of customer(s) as per guidelines for ongoing review as required under applicable SECP AML CFT Regulations/guidelines along with international best practices, while, the basis of revision shall be documented and customers may be consulted, if necessary.

Such limits will be maintained to make sure that all transactions are consistent with the Broker's knowledge of the customer, its business and risk profile and are conducted in accordance with the SECP AML / CFT regulations for the Securities Broker, instructions of Financial Monitoring Unit (FMU) and other applicable local /international bodies.

Financial transactions should be monitored through automated Transaction Monitoring System (TMS) based on predefined scenarios and thresholds.

The management shall pay special attention to every complex, unusually large and out- of-pattern transaction(s), which have no apparent economic or visible lawful purpose. If the Broker suspects or has reasonable grounds to suspect that the funds are the proceeds of criminal activities or have potential to be used for terrorist activities, it shall report its suspicion to Financial Monitoring Unit (FMU) through its Go AML E-portal. In case of suspicion, the Compliance Officer shall raise Suspicious Transaction Reports in line with the requirement highlighted under AML Act 2010, SECP AML / CFT regulations and SECP Guidelines. Accordingly the Compliance Officer should devise procedures to meet these requirements.

For customers / clients whose accounts are dormant, the Broker shall not allow debit entries in such accounts (except those allowed under AML/CFT Regulations) until the account holder(s) produce(s) attested copy of his/her CNIC if already not available in the Broker's record, fulfill all other requirements for activation of the account and the Operation Department is satisfied with CDD of the customer.



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The employees of the Broker are strictly prohibited to disclose the fact to the customer that a Suspicious Transaction Report (STR) / Currency Transaction Report (CTR) or related information has been reported to FMU or any other Law Enforcement Agency (LEA).

Currency Transactions (i.e. CTR) exceeding the prescribed limits as defined in AML Act 2010 and its subsequent amendments from time to time will be reported to FMU through Go AML E-portal. In order to adopt additional measures to further strengthen the CDD regime, CDD/EDD Assessment up to Top 50 Investors will be conducted by each branch. The branches shall conduct assessment of such accounts regarding compliance of the CDD/EDD requirements and identify deficiencies and make necessary efforts to regularize the deficiencies identified during the assessment process.

ON-GOING MONITORING OF BUSINESS RELATIONSHIPS

1 In case a customer has no active business with the RP, and cannot be reached, or refuses to engage in updating because there is no active business, account should be marked inactive with the instruction that relationship cannot be re-activated without full CDD.

2 In case due diligence cannot be updated, a formal ending of the relationship should be done by following the legal process for ending a customer relationship under the applicable laws.

3 RPs are encouraged to invest in computer systems for transactions monitoring specifically designed to assist the detection of ML/TF/PF. It is recognized that this may not be necessary in a risk-based approach. In such circumstances, RPs will need to ensure they have alternative systems in place for conducting on-going monitoring.

Alternate or manual systems of ongoing monitoring may rely on Compliance Officer generated lists or instructions and regular lists generated from IT system such as:

- (a) High transaction list for each day;
- (b) Periodic list of transactions over determined thresholds;
- (c) Periodic list of new clients and relations closings;
- (d) Monthly or yearly lists of inactive clients; Ad Hoc reviews, meaning reviews triggered by an event, new information from supervisors and media reports.

SIMPLIFIED DUE DILIGENCE ("SDD") MEASURES:

The ISPL may conduct SDD in case of Low Risk identified in line with NRA 2019. The ISPL should pay attention to the level of Risk assigned in the latest NRA 2019:

- (a) To relevant sector;
- (b) To relevant customer type; and
- (c) To activity

The ISPL will use the following SDD Measures:

- (a) Reducing the frequency of Customer identification update;
- (b) Reducing the degree of On-going monitoring and scrutinizing transactions, based on reasonable monetary threshold;
- (c) 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;
- (d) undertaking verification after establishment of the business relationship;
- (e) Less stringent steps to verify the Beneficial Owner.



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- 3 Where the ISPL decides to take SDD measures w.r.t a Customer, it should document the full rationale behind such decision and make available that documentation to the Commission on request.

ENHANCED DUE DILIGENCE MEASURES:

The ISPL shall apply Enhanced Due Diligence Measures in the following scenarios:

POLITICALLY EXPOSES PERSONS (PEPS)

- (a) Business relationships with PEPs holding important public positions may expose RP to significant reputational and/or legal risk. In addition, PEPs because of their position, may expose RPs and their business partners to a high degree of public expectation and scrutiny.
- (b) Family members of a PEP are individuals who are related to a PEP either directly or through marriage. Close associates are individuals who are closely connected to PEP, either socially or professionally. Close associates have in many cases been used to provide a cover for the financial activities of a PEP, and may not be in any way connected to the PEP in an official capacity. The CDD done by RPs on the source of funds or source of wealth of a customer may be the first clear documentation of a close association.

RISK AS PER NRA 2019:

- (a) The AML/CFT National Risk Assessment of Pakistan has determined the risk of corruption and therefore the risk of providing financial services to PEPs is high. This means that all domestic PEPs must be scrutinized, particularly for their source of funds wealth and assets.
- (b) The ISPL shall be obliged to ascertain whether their customer is a PEP. In assessing the ML/TF risks of a PEP, the ISPL shall consider factors such as whether the customer who is a PEP:
 - a. Has prominent public functions in sectors known to be exposed to corruption;
 - b. Has business interests that can cause conflict of interests (with the position held);
 - c. Has been mentioned in media related to illicit financial behavior; and
 - d. Is from a high risk country.
- (c) The PEP red flags that the RPs shall consider include:
 - a. The information that is provided by the PEP is inconsistent with other (publicly available) information, such as asset declarations and published official salaries;
 - b. A family member of a PEP without own financial means is transacting with the RP without declaring the relationship to a PEP, or the origin of the funds transacted;
 - c. The PEP is associated with, or owns, or signs for, complex legal structures that are commonly used to hide Beneficial Ownership;
 - d. Funds are repeatedly moved to and from countries to which the PEP does not seem to have ties;
 - e. A PEP uses multiple bank accounts for no apparent commercial or other reason;
 - f. The PEP is from a country that prohibits or restricts certain citizens from holding accounts or owning certain property in a foreign country.
- (d) The ISPL shall take a Risk-Based Approach in determining whether to continue to consider a customer as PEP who is no longer PEP. The factors that RPs should consider include:
 - a. the level of (informal) influence that the individual could still exercise; and
 - b. 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, or through continued strong ties within a party, family or institution).



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- (e) The ISPL in addition to performing normal due diligence measures should also:
- have appropriate risk management systems to determine whether the customer is a PEP;
 - obtain **senior management approval** for establishing business relationships;
 - take reasonable measures to establish the source of wealth and source of funds; and
 - Conduct enhanced ongoing monitoring of the business relationship.

CUSTOMERS FROM HIGH-RISK JURISDICTIONS IDENTIFIED BY FATF:

The management shall also apply Enhance Due Diligence (EDD), proportionate to the risks to business relationships with individuals and entities including Financial Institutions from high-risk foreign jurisdictions as specified by the FATF and as identified by the ISPL during its internal TF risk assessment.

NON-PROFIT ORGANIZATIONS ("NPOs") OR NON-GOVERNMENT ORGANIZATIONS ("NGOs")

- Both by international standards and in Pakistan's National Risk Assessment, NPOs and NGOs are classified as a High-Risk Sector for TF.
- The objective of Enhanced Customer Due Diligence for NPOs/NGOs is to ensure that NPOs/NGOs are not misused by terrorist organizations:
 - to pose as legitimate entities;
 - to exploit legitimate entities as conduits for terrorist financing, including for the purpose of escaping asset freezing measures; or
 - To conceal or obscure the clandestine diversion of funds intended for legitimate purposes, but diverted for terrorist purposes.
- The ISPL who transacts with NPOs/NGOs should understand:
 - Beneficiaries and Beneficial Owners including certain donors that maintain decision rights;
 - Flow of funds, in particular the use of funds by an NPO/NGO.

HIGH NET WORTH INDIVIDUALS (HNWI)

- High net worth individuals while an attractive customer for the ISPL can expose the RP to higher risk of financial transactions that may be illicit. There is no standard size of HNWI. Every RP knows to whom it is offering its products and services, and can establish criterion for HNWI applicable to their particular business.
- The ISPL should scrutinize HNWI customers to determine, whether they carry a higher risk of ML/FT and require additional due diligence measures. Such scrutiny must be documented and updated as part of the Risk Assessment of the RP.

HIGH-RISK COUNTRIES & HIGHER RISK REGIONS WITHIN A COUNTRY

- Certain countries or regions within countries have a specific higher AML/CFT risk profile. **Examples are Balochistan, Southern Punjab, KPK including FATA**, border regions, large goods transit points such as ports, or regions experiencing social unrest, that can be associated with specific crime patterns such as cash or people smuggling, drug trafficking, violent crimes, fraud and corruption, and consequently pose a higher potential risk to the RP. Conducting a business relationship with a customer from such a country/region exposes the RP to risk of channeling illicit money flows.



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- 6.2 The ISPL should exercise additional caution, and conduct EDD on individuals and/or entities based in high-risk countries/regions. The ISPL shall consult publicly available information to ensure that they are aware of the high-risk countries/territories. The ISPL shall consider among the other sources, sanctions issued by the UN, the FATF high risk and non-cooperative jurisdictions, the FATF and its regional style bodies (FSRBs) and Transparency International Corruption Perception Index (TI CPI).
- 6.3 Complex legal structures may be created in jurisdictions specializing in obscuring the trail to **Beneficial Owners** and allowing easy creation of complex corporate vehicles, so called offshore jurisdictions. RPs engaging with foreign complex legal structures, or with local companies owned by such foreign legal structures, need to educate themselves on offshore financial centers and acquire adequate expertise to understand their customers' ownership structure up to the Beneficial Owner and be able to assess documents presented to them.

6.4 AFGHAN REFUGEES

Identification and evaluation of the customers or their nominees or authorized persons or directors or sponsors or major shareholders, who are Afghan National or Afghan Refugees

ISPL shall ensure that before establishing business relationship with people from High Risk jurisdiction areas as identified in AML / CFT regulations, the person is not an Afghan Refugee or a person's nominee or joint holder is not an Afghan Refugee. It is likely hood that Afghan Refugees are involved in various crimes like drug trafficking, kidnapping, money laundering and terrorist activities.

RISK MANAGEMENT APPLYING RISK BASED APPROACH:

All relationships shall be categorized with respect to their risk levels i.e., High, Medium and Low based on the risk profiling of customer (through e-KYC/CDD application and as guided in SECP AML CFT Regulations and SECP Guidelines and international best practices for making effective decision whether to perform Customer Due Diligence (CDD) or Enhanced Due Diligence (EDD) both at the time of opening and ongoing monitoring of business relationship.

The Broker may endeavor to develop the system based KYC/CDD and Risk Profiling of Customer, through implementation of e-KYC/CDD Application. This application may assist the branches for effective and efficient KYC/CDD management in order to mitigate risk related to Money Laundering/Financing of Terrorism and Proliferation Financing.

The approval for opening of Politically Exposed Person (PEP) and Non-Governmental Organizations (NGOs)/Not-for-Profit Organizations (NPOs) and Charities account will be obtained from Senior Management (Not less than Head of Operations or Business Development) after performing EDD. Further Personal accounts will not be allowed to be used for charity purposes/collection of donations.

Customer KYC / CDD profile will be reviewed and/or updated on the basis of below mentioned predefined frequency, in accordance with the risk profile of the customer:



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High Risk	At least Once in a Year or on need basis*
Medium Risk	At Least Once in 2 Years or on need basis*
Low Risk	At least Once in 3 Years or on need basis*

*In case of any material change in the relationship or deviation from customer profile, CDD will be conducted and customer profile will be updated immediately without lapse of above defined period.

The Compliance Officer will counter-examine the relationships to ensure that due diligence procedures are adhered to in letter and spirit by the concerned staff in business segments.

While formulating procedures and controls, the management shall take into consideration Money Laundering and Financing of Terrorism threats that may arise from the use of new or developing technologies, especially those having features of anonymity or inconsistency with the spirit of CDD/EDD measures.

IDENTIFICATION OF BENEFICIAL OWNERSHIP OF LEGAL PERSONS OR LEGAL ARRANGEMENT

The ISPL shall identify the beneficial owners of Legal Person or Legal Arrangements as per following procedures:

The Beneficial Owner (the "BO") is the natural person at the end of the chain who ultimately owns or controls the customer. The BO is defined under AML/CFT Regulations, *"beneficial owner" in relation to a customer of a regulated person means, the natural person who ultimately owns or control a customer or the natural person on whose behalf a transaction is being conducted and includes the person who exercise ultimate effective control over a person or a legal arrangement*.

The Companies Act, 2017 defines "Beneficial Ownership of shareholders or officer of a company" means ownership of securities beneficially owned, held or controlled by any officer or substantial shareholder directly or indirectly, either by

- him or her;
- the wife or husband of an officer of a company, not being herself or himself an officer of the company;
- the minor son or daughter of an officer where "son" includes step-son and "daughter" includes step-daughter; and "minor" means a person under the age of eighteen years;
- in case of a company, where such officer or substantial shareholder is a shareholder, but to the extent of his proportionate shareholding in the company;

Provided that "control" in relation to securities means the power to exercise a controlling influence over the voting power attached thereto:

Provided further that in case the substantial shareholder is a non-natural person, only those securities will be treated beneficially owned by it, which are held in its name.

Explanation: -For the purpose of this Act "substantial shareholder", in relation to a company, means a person who has an interest in shares of a company-

- the nominal value of which is equal to or more than ten per cent (10%) of the issued share capital of the company, or
- Which enables the person to exercise or control the exercise of ten (10%) per cent or more of the voting power at a general meeting of the company.



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ISPL shall ensure that before establishing business relationship with people from High Risk jurisdiction areas as identified in AML / CFT regulations, the person is not an Afghan Refugee or a person's nominee or joint holder is not an Afghan Refugee. It is likely hood that Afghan Refugees are involved in various crimes like drug trafficking, kidnapping, money laundering and terrorist activities.

) RISK MANAGEMENT APPLYING RISK BASED APPROACH:

- 1 All relationships shall be categorized with respect to their risk levels i.e., High, Medium and Low based on the risk profiling of customer (through e-KYC/CDD application and as guided in SECP AML CFT Regulations and SECP Guidelines and international best practices for making effective decision whether to perform Customer Due Diligence (CDD) or Enhanced Due Diligence (EDD) both at the time of opening and ongoing monitoring of business relationship.
- 2 The Broker may endeavor to develop the system based KYC/CDD and Risk Profiling of Customer, through implementation of e-KYC/CDD Application. This application may assist the branches for effective and efficient KYC/CDD management in order to mitigate risk related to Money Laundering/Financing of Terrorism and Proliferation Financing.
- 3 The approval for opening of Politically Exposed Person (PEP) and Non-Governmental Organizations (NGOs)/Not-for-Profit Organizations (NPOs) and Charities account will be obtained from Senior Management (Not less than Head of Operations or Business Development) after performing EDD. Further Personal accounts will not be allowed to be used for charity purposes/collection of donations.
- 4 Customer KYC / CDD profile will be reviewed and/or updated on the basis of below mentioned predefined frequency, in accordance with the risk profile of the customer:

High Risk	At least Once in a Year or on need basis*
Medium Risk	At Least Once in 2 Years or on need basis*
Low Risk	At least Once in 3 Years or on need basis*

**In case of any material change in the relationship or deviation from customer profile, CDD will be conducted and customer profile will be updated immediately without lapse of above defined period.*

- 5 The Compliance Officer will counter-examine the relationships to ensure that due diligence procedures are adhered to in letter and spirit by the concerned staff in business segments.
- 6 While formulating procedures and controls, the management shall take into consideration Money Laundering and



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Financing of Terrorism threats that may arise from the use of new or developing technologies, especially those having features of anonymity or inconsistency with the spirit of CDD/EDD measures.

i) IDENTIFICATION OF BENEFICIAL OWNERSHIP OF LEGAL PERSONS OR LEGAL ARRANGEMENT

The ISPL shall identify the beneficial owners of Legal Person or Legal Arrangements as per following procedures:

- 1 The Beneficial Owner (the "BO") is the natural person at the end of the chain who ultimately owns or controls the customer. The BO is defined under AML/CFT Regulations, *"beneficial owner" in relation to a customer of a regulated person means, the natural person who ultimately owns or control a customer or the natural person on whose behalf a transaction is being conducted and includes the person who exercise ultimate effective control over a person or a legal arrangement"*.
- 2 The Companies Act, 2017 defines "Beneficial Ownership of shareholders or officer of a company" means ownership of securities beneficially owned, held or controlled by any officer or substantial shareholder directly or indirectly, either by-
 - (a) him or her;
 - (b) the wife or husband of an officer of a company, not being herself or himself an officer of the company;
 - (c) the minor son or daughter of an officer where "son" includes step-son and "daughter" includes step-daughter; and "minor" means a person under the age of eighteen years;
 - (d) in case of a company, where such officer or substantial shareholder is a shareholder, but to the extent of his proportionate shareholding in the company;

Provided that "control" in relation to securities means the power to exercise a controlling influence over the voting power attached thereto:

Provided further that in case the substantial shareholder is a non-natural person, only those securities will be treated beneficially owned by it, which are held in its name.

Explanation: -For the purpose of this Act "substantial shareholder", in relation to a company, means a person who has an interest in shares of a company-

- (a) the nominal value of which is equal to or more than ten per cent (10%) of the issued share capital of the company; or
- (b) Which enables the person to exercise or control the exercise of ten (10%) per cent or more of the voting power at a general meeting of the company.

Backward Ownerships means, "Ownership of the Legal Person or Legal Arrangement by another Legal Person or Legal Arrangement, that is also owned by another Legal Person or Legal Arrangement and so on and so forth until ultimate Natural Person(s) is (are) identified. For Example:

- (b) **Forward Ownerships** means "the Legal Person or Legal Arrangement which owns another Legal Person or Legal Arrangement, that also owns another Legal Person or Legal Arrangement, until ultimate Natural Person(s) is(are) found, who owns such Legal Person or Legal Arrangement.
- (c) In this Customer (Legal Person) and its ultimate Beneficial Owners i.e., Natural Persons will be screened for identification and assessment against the lists of Designated/Proscribed Persons/Entities by NACTA and UNSCR through Govt. of Pakistan. The lists of designated / proscribed persons/entities are available on the following links:



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- d. <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>
- e. [\(https://scsanctions.un.org/search/](https://scsanctions.un.org/search/)
- f. <https://www.un.org/securitycouncil/sanctions/1267>
- g. <https://www.un.org/securitycouncil/sanctions/1988>
- h. <https://www.un.org/securitycouncil/sanctions/1718>
- i. <https://www.un.org/securitycouncil/content/2231/background>
- j. <https://nacta.gov.pk/proscribed-organizations-3/>
- k. <https://nacta.gov.pk/pp/>
- l. <https://nfs.punjab.gov.pk/>

.3 FOR LEGAL PERSONS / LEGAL ARRANGEMENTS:

The INTERACTIVE will essentially be required to understand the ownership and control structure of the Customer having simple structure based on the following:

- (a) Plausibility and records.
- (b) Further verification in any case of lack of transparency or doubt, or higher risk.
- (c) Register of Ultimate Beneficial Ownership as primary source for verification.

In case of a local Customer having complex structures, foreign entities or foreign owned entities, INTERACTIVE is required to develop and have the necessary knowledge to correctly identify and verify such clients and their beneficial owners using information and data publicly available on the internet.

- (a) The ISPL may adopt a Risk-Based Approach to the verification of beneficial ownership of a customer.
- (b) ISPL must identify the beneficial ownership of a customer, regardless of the level of risk associated with that customer. However, the INTERACTIVE shall take reasonable steps to verify the identity and information depends upon on the risk assessment of the customer.
- (c) The ISPL should assess different levels of ML/TF risks posed by their customers' beneficial owners.

.4 CUSTOMERS, WHOSE BENEFICIAL OWNERSHIP MUST BE KNOW:

The ISPL must identify the BOs of the following Customers:

- (a) Politically Exposed Persons;
- (b) Customers having links with High-Risk Country or Region.
- (c) Students not having regular and known Source of Income;
- (d) House-wives not having regular and know Source of Income.
- (e) Trusts, Non-Profit Organizations, Non-Government Organizations, etc.
- (f) Companies, Corporations and Partnerships having backward and/or forward ownership by another legal person(s).

.5 IN CASE OF SUSPICION REGARDING BO OF THE CUSTOMER:

If the ISPL has doubts about the veracity or adequacy of the information provided, it should do the following actions:

- (a) not start a business relationship, or provide a financial service;
- (b) consider making a suspicious transaction report to FMU;
- (c) In case of non-reporting of STR, the INTERACTIVE may continue business relationship with such Customer provided rationale for its decision is recorded on its EDD form.



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.6 BENEFICIAL OWNERSHIP DECLARATION FORM:

The ISPL shall gather information relating to Beneficial Ownership from the Customer, who are Legal Person or Legal Arrangement as per declaration given by the Customer.

. REVIEW OF NEW PRODUCTS, PRACTICES AND SERVICES INCLUDING NEW TECHNOLOGIES

The management shall identify and assess the ML/FT/PF risks that may arise in relation to expansion of operations in different jurisdictions, the development of new products, services, business practices including delivery mechanism and the use of new or developing technologies for both new and pre-existing products.

14.1 CROSS BORDER FUNDS TRANSFER

ISPL shall strictly monitor wire transfers (domestic / cross border) regardless of any threshold. Foreign wire transfers are usually used to hide the actual transactions occurred. ISPL shall ensure that if any amount is received from cross border, the amount is actually transferred from the client through legal process of funds transfer methods in foreign countries like **SWIFT** not through various financial institutions to layer the transactions.

RECORD KEEPING

The records of identification documents, account opening forms, KYC forms, verification documents and other relevant documents along with records of account files and business correspondence, shall be maintained for a minimum period of ten years after the business relationship is ended.

The management shall also maintain for a minimum period of ten years all necessary records on transactions for both domestic and cross-border from the date of completion of transaction(s). The data relating to Suspicious Transactions and Currency Transactions reported by the Broker to FMU will be retained for the period of at least ten years from the date of such reporting.

However, records relating to customers, accounts or transactions will be retained for longer period, which involve litigation or is required by court or other competent authority until otherwise instructed by the relevant body. Furthermore, all signature cards and documents indicating signing authorities, and other documents relating to the account or instrument surrendered to SECP / Exchange / any other competent law enforcing agency (duly authorized by law/court), shall be kept in the Broker's record till such time that SECP / Exchange / competent law enforcing agency (duly authorized by law/court) informs in writing that same need no longer to be preserved.

CORRESPONDENT BROKERAGE SERVICE BUSINESSES

The management will establish correspondent brokerage relationships with only those foreign brokers that have adequate and effective AML / CFT systems and policies in line with the AML / CFT

Regulations relating to the country in which foreign broker operate. The Broker will pay special attention when establishing or continuing correspondent relationship with foreign brokers which are located in geographical locations or governed by jurisdictions that have been identified by FATF for inadequate and poor AML/CFT standards in the fight against money laundering and financing of terrorism.

Before establishing new correspondent brokerage relationship, approval from senior management shall be obtained and proper Due Diligence shall be conducted. Ongoing Due Diligence of respondent/correspondent broker will be conducted using risk-based approach following the *guidelines given in below table*.



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High Risk	At least Once in a Year or earlier if any happening / event/situation so demands*
Medium Risk	At Least Once in 2 Years or earlier if any happening / event/situation so demands *
Low Risk	At least Once in 3 Years or earlier if any happening / event/situation so demands*

For due diligence purposes, at the minimum, information as mentioned in Note to Annex 1 of SECP (AML / CFT) Regulations, 2020 shall also be

Annex 1

S No.	Type of Customer	Minimum Documents required for CDD
1.	Individuals	<p>A ³¹[copy] of any one of the following valid identity documents:</p> <ul style="list-style-type: none">(i) Computerized National Identity Card (CNIC)/Smart National Identity Card (SNIC) issued by NADRA;(ii) National Identity Card for Overseas Pakistani (NICOP/SNICOP) issued by NADRA;(iii) Form-B/Juvenile card/ ³²[Child Registration Certificate (CRC)] issued by NADRA to children under the age of 18 years;(iv) Pakistan Origin Card (POC) issued by NADRA;(v) Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only);(vi) ³³[*]Proof of Registration (POR) Card issued by NADRA; and(vii) Passport; having valid visa on it or any other proof of legalstay along with passport (foreign national individuals only).



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2.	Joint Account	(i) A ³⁴ [copy] of any one of the documents mentioned at Serial No. I; and (ii) In the case of joint accounts, CDD measures on all of the joint account holders shall be performed as if each of them is individual customers of the RP.
3.	Sole proprietorship	(i) ³⁵ [Copy] of identity document as per Sr. No. 1 above of the proprietor; (ii) Attested copy of registration certificate for registered concerns; (iii) Sales tax registration or NTN, wherever applicable; (iv) Account opening requisition on business letter head; (v) Registered/ Business address; and (vi) ³⁶ [Certificate or proof of membership of trade bodies etc., (if any)]
4.	Partnership	(i) ³⁷ [Copies] of identity documents as per Sr. No. 1 above of all the partners and authorized signatories; (ii) Attested copy of 'Partnership Deed'; (iii) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact shall be clearly mentioned on the Account Opening Form; (iv) Authority letter from all partners, in original, authorizing the person(s) to operate firm's account; and (v) Registered/ Business address.
5.	Limited Liability Partnership (LLP)	(i) ³⁸ [Copies] of identity documents as per Sr. No. 1 above of all the partners and authorized signatories; (ii) Certified Copies of: (a) Limited Liability Partnership Deed/Agreement; (b) LLP-Form-III having detail of partners/designated partner in case of newly incorporated LLP; (c) LLP-Form-V regarding change in partners/designated partner in case of already incorporated LLP; and (iii) Authority letter signed by all partners, authorizing the person(s) to operate LLP account.



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6.	Limited Companies/ Corporations	<p>(i) Certified copies of:</p> <p>(a) Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account;</p> <p>(b) Memorandum and Articles of Association;</p> <p>(ii) Certified copy of Latest 'Form-A/Form-B'.</p> <p>(iii) Incorporate Form II in case of newly incorporated company and Form A / Form C whichever is applicable; and Form 29 in already incorporated companies;</p> <p>(iv) ³⁹[Copies] of identity documents as per Sr. No. 1 above of all the directors and persons authorized to open and operate the account; and</p> <p>(v) ⁴⁰[Copies] of identity documents as per Sr. No. 1 above of the beneficial owners.</p>
7	Branch Office or Liaison Office of Foreign Companies	<p>(viii) A copy of permission letter from relevant authority i-e Board of Investment;</p> <p>(ix) ⁴¹[Copies] of valid passports of all the signatories of account;</p> <p>(x) List of directors on company letter head or prescribed format under relevant laws/regulations;</p> <p>(xi) Certified copies of:</p> <p>(a) Form II about particulars of directors, Principal Officer etc.</p> <p>in case of newly registered branch or liaison office of a foreign company;</p> <p>(b) Form III about change in directors, principal officers etc. in already registered foreign companies branch or liaison office of a foreign company;</p> <p>(xii) A Letter from Principal Office of the entity authorizing the person(s) to open and operate the account; and</p> <p>(a) Branch/Liaison office address.</p>



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8	Trust, Clubs, Societies and Associations etc.	<p>(i) Certified copies of:</p> <ul style="list-style-type: none">a. Certificate of Registration/Instrument of Trust;b. By-laws/Rules & Regulations; <p>(ii) Resolution of the Governing Body/Board of Trustees/Executive Committee, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account;</p> <p>(iii) ⁴²[Copy] of identity document as per Sr. No. 1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body; and</p> <p>(iv) Registered address/ Business address where applicable.</p>
9	NGOs/NPOs/Charities	<p>(i) Certified copies of:</p> <ul style="list-style-type: none">(a) Registration documents/certificate;(b) By-laws/Rules & Regulations; <p>(ii) Resolution of the Governing Body/Board of Trustees/Executive Committee, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account;</p> <p>(iii) ⁴³[Copy] of identity document as per Sr. No. 1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body;</p> <p>(iv) Any other documents as deemed necessary including its annual accounts/ financial statements or disclosures in any form which may help to ascertain the detail of its activities, sources and usage of funds in order to assess the risk profile of the prospective customer; and</p> <p>(v) Registered address/ Business address.</p>



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10	Agents	<ul style="list-style-type: none">(i) Certified copy of 'Power of Attorney' or 'Agency Agreement';(ii) ⁴⁴[Copy] of identity document as per Sr. No. 1 above of the agent and principal;(iii) The relevant documents/papers from Sr. No. 2 to 7, if agent or the principal is not a natural person; and(iv) Registered/ Business address.
11	Executors and Administrators	<ul style="list-style-type: none">(i) ⁴⁵[Copy] of identity document as per Sr. No. 1 above of the Executor/Administrator;(ii) A certified copy of Letter of Administration or Probate; and(iii) Registered address/ Business address.
12	Minor Accounts	<ul style="list-style-type: none">(i) ⁴⁶[Copy] of Form-B, Birth Certificate or Student ID card (as appropriate); and(ii) ⁴⁷[Copy] of identity document as per Sr. No. 1 above of the guardian of the minor.
13	⁴⁸ [Mentally Disordered Person Account:	<ul style="list-style-type: none">(i) Copy of applicable valid identity documents of mentally disordered person and court appointed manager under the applicable laws related to mental health;(ii) Certified true copy of court order for appointment of manager for mentally disordered person;(iii) Verification of identity document through bio-metric verifications from NADRA for both persons i.e. mentally disordered person and the manager appointed by court;(iv) Verification of court order from the concerned court (to be obtained by Regulated Person);(v) Account would be opened in the name of mentally disordered person and the same will be operated by the court appointed manager;(vi) All CDD requirements/formalities should be conducted / completed for both persons; and(vii) In case of change of manager by the court, the CDD will be conducted for the new appointed manager by the Regulated Person afresh.]



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Note:

- (i) For due diligence purposes, at the minimum following information shall also be obtained and recorded on KYC (Know Your Customer)/CDD form or account opening form:
 - (a) Full name as per identity document;
 - (b) Father/Spouse Name as per identity document;
 - (c) Mother Maiden Name;
 - (d) Identity document number along with date of issuance and expiry;
 - (e) Existing residential address (if different from CNIC);
 - (f) Contact telephone number(s) and e-mail (as applicable);
 - (g) Nationality-Resident/Non-Resident Status
 - (h) FATCA/CRS Declaration wherever required;
 - (i) Date of birth, place of birth;
 - (j) Incorporation or registration number (as applicable);
 - (k) Date of incorporation or registration of Legal Person/ Arrangement;
 - (l) Registered or business address (as necessary);
 - (m) Nature of business, geographies involved and expected type of counter-parties (as applicable);
 - (n) Type of account/financial transaction/financial service;
 - (o) Profession / Source of Earnings/ Income: Salary, Business, investment income;
 - (p) Purpose and intended nature of business relationship;
 - (q) Expected monthly turnover (amount and No. of transactions); and
 - (r) Normal or expected modes of transactions/ Delivery Channels.
- (ii) ⁴⁹[The copies of identity documents shall be validated through NADRA verisys or Biometric Verification. The regulated person shall retain copy of NADRA verisys or Biometric Verification (hard or digitally) as a proof of obtaining identity from customer; and]
- (iii) ⁵⁰[***] omitted.
- (iv) In case of expired CNIC, account may be opened on the basis of attested copies of NADRA receipt/token and expired CNIC subject to condition that regulated person shall obtain copy of renewed CNIC of such customer within 03 months of the opening of account.
- (v) For CNICs which expire during the course of the customer's relationship, regulated person shall design/ update their systems which can generate alerts about the expiry of CNICs at least 01 month before actual date of expiry and shall continue to take reasonable measures to immediately obtain copies of renewed CNICs, whenever expired. In this regard, regulated person are also permitted to utilize NADRA Verisys reports of renewed CNICs and retain



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copies in lieu of valid copy of CNICs. However, obtaining copy of renewed CNIC as per existing instructions will continue to be permissible.

- (vi) The condition of obtaining Board Resolution is not necessary for foreign companies/entities belonging to countries where said requirements are not enforced under their laws/regulations. However, such foreign companies will have to furnish Power of Attorney from the competent authority for establishing Business Relationship to the satisfaction of the regulated person.
- (vii) ⁵¹[The condition of obtaining photocopies of identity documents of directors of Limited Companies/ Corporations is relaxed in case of Government/ Semi Government entities, where SECP RPs should obtain photocopies of identity documents of only those directors and persons who are authorized to open and operate the account. However, SECP RPs shall validate identity information including CNIC numbers of other directors from certified copies of Form-A / Form-B / Form-29"].
- (viii) Government entities accounts shall not be opened in the personal names of a government official. Any account which is to be operated by an officer of the Federal or Provincial or Local Government in his/her official capacity, shall be opened only on production of a special resolution or authority from the concerned administrative department or ministry duly endorsed by the Ministry of Finance or Finance Department/Division of the concerned Government.

Explanation:- For the purposes of this regulation the expression "Government entities" includes a legal person owned or controlled by a Provincial or Federal Government under Federal, Provincial or local law.

Explanation:- For the purpose of this Annexure I the expression "NADRA" means National Database and Registration Authority established under NADRA Act, (VIII of 2000).

This update to the policy aims to strengthen measures against financial crimes and terrorism funding. Scope of regulations expanded to include Countering Proliferation Financing, ensuring stricter adherence to global standards. To improve the detection and prevention of money laundering, terrorism financing, and proliferation financing.



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Key Changes:

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Terminology Update: Added “Countering Proliferation Financing (CPF)” to expand the scope of AML/CFT regulations

New definitions introduced such as Designated Person: An individual/entity listed under UN sanctions

Proliferation Financing: Funding related to weapons of mass destruction

Mentally Disordered Person: A person defined under mental health laws

CDD: We can rely on third parties for customer identification but remain responsible for compliance

BO: Additional measures required for verifying identities and beneficial ownership

Foreign Branches: Must follow Pakistan's AML rules if local laws allow. If not, they must apply risk management measures and inform SECP.

Documentary Requirements: Updated requirements for account opening documents, including membership proofs for trade bodies and certified court orders for special accounts.

Validation Procedures: NADRA biometric verification is mandatory for identity documents to ensure accuracy



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Updates related to Pakistan's National Risk Assessment 2023:

Changes in Risk Rating

Rating Scales	NRA 2019	NRA 2023
	High	Very High
	Medium High	High
	Medium	Medium
	Medium Low	Low
	Low	

Inherent Vulnerability Assessment Ratings of the LPLAs				
Type of LP/LA	No. of LP/LAs (30-06-2022)	NRA 2019 Risk Rating	SRA 2021 Risk Rating	NRA 2023 Risk Rating
Private Limited Companies	164,283	High	High	Very High
Public companies	4,460	Low	Low	Low
Companies Limited by Guarantee	417	Medium	Low	Low
Foreign Companies	1,084	High	High	Very High
Limited Liability Partnerships (LLPs)	1,904	High	Medium	Medium
Cooperatives	21,986	Low	Low	Low
Trusts	2,606	High	Medium	Medium
Waqfs	1,998	High	Medium	Medium
TOTAL	198,738			

Table 4.6 Channel-wise TF Data

Sr. No.	Sectoral channel	NRA 2023
1	Cash/ Cash couriers	Very High
2	Illegal MVTs	Very High
3	Banking	High
5	Branchless Banking	High
4	Virtual Currency	Medium
6	Exchange Companies	Medium
7	Securities	Low
8	Insurance	Low
9	NBFCs & Modaraba	Low
10	Microfinance	Low
11	Legal persons & legal arrangements	Low



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Table: 5.1 Inherent Vulnerability Assessment Ratings of the Financial and DNFBP Sectors							
Sector		No. of Entities	Supervisor	2019 Risk Rating		2023 Risk Rating	Change in Rating
Sr. No.	Financial Sector						
1	Banks	32	SBP	High	Very High	↔	
2	Microfinance Banks (MFBs)	11		High	High	↓	
3	Exchange Companies (ECs)	46		High	High	↓	
4	Development Finance Institutions (DFIs)	7		Low	Low	↔	
5	Securities Market	200	SECP	Medium High	Medium	↓	
6	NBFCs (Fund Management)	90		Medium High	Medium	↓	
7	NBFCs (Lending & Modarbas)			Medium High	Medium	↓	
8	Life Insurance Companies	10		Medium	Medium	↔	
9	Non-Life Insurance Companies	30	NSSB	Low	Low	↔	
10	Central Directorate of National Savings (CDNS)	1		High	Medium	↓	
Sr. No.	DNFBP Sector						
1	Real Estate Agents	40,833	FBR	High	Very High	↔	
2	Dealers in Precious Metals & Stones (DPMS)	18,675		Medium High	High	↔	
3	Lawyers, TCSPs and Notaries	138	PBC/ SECP	Medium High	Low	↓	
4	Accountants	75	ICAP /ICMA	Medium	Low	↓	
		98	FBR				

NPOs Sector	Social Welfare	Charity	Religious	Education	Others
Risk Rating	High	High	High	High	Low



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*In case of any material change in the relationship or deviation from customer profile, CDD will be conducted and customer profile will be updated immediately without lapse of above defined period. *Material change in relationship in the context of correspondent foreign broker would mean that the conduct of the account is not commensurate with the stated profile of the correspondent or respondent foreign broker and can also be triggered owing to some geo political situation under sanctions regime.*

The Broker shall not enter into or continue correspondent brokerage relations with a shell broker/entity and shall take appropriate measures when establishing correspondent brokerage relations, to satisfy themselves that their respondent broker do not permit their accounts to be used by shell companies/entities.

17 EMPLOYEES DUE DILIGENCE FOR THEIR VERIFICATION AND SCREENING

In line with SECP AML/CFT regulations, the management will implement employees due diligence policy for verification and screening of employees so inducted/hired to ensure that person has a clean history. Further, the Compliance Officer shall perform independent review of Employee Due Diligence process as per Broker's HR Manual/Policy.

18 VENDORS, OUTSOURCING AND SERVICE PROVIDER'S DUE DILIGENCE

The management should ensure that regulatory guidelines as specified in SECP AML/CFT Regulations and Guidelines relating to Outsourcing Arrangements for Compliances, Internal Audit and Operations, if done to outsourcing service providers are implemented.

19 TRAINING

Suitable Employee Training Program will be put in place by the management on an annual basis to enhance staff capability, to effectively implement the regulatory requirements, the Broker's own policy & procedural requirements relevant to AML/CFT including alerts analysis, and possible reporting of Suspicious Transactions as well as to understand new developments in ML/TF/PF techniques, methods, and trends. Further, dedicated awareness sessions will be held for the Broker's staff to raise the level of understanding of the Broker's officials on ML/TF/PF risks.

20 COMPLIANCE REVIEW

The Compliance Officer shall perform the periodic review of branches to check their level of compliance with the provisions in the AML/CFT Policy and Procedures according to their scope/framework.

21 POLICY REVIEW PERIOD

The AML / CFT Policy will be reviewed on as and when required basis but not later than one year.


CHIEF EXECUTIVE OFFICER

