

Foundation Securities (Private) Limited
KYC & CDD Policies and Procedures

Back Ground

In the last few years, across the world regulations have been put in place to discourage money laundering and financing of illegal/criminal activities. Furthermore, under the United Nations umbrella, several international agreements have been signed by U.N. member states under which member states are bound to implement policies that discourage money laundering and monitor financial transaction that are suspicious and raise concern about money laundering. Pakistan is a signatory to such agreement and is a member of relevant bodies such as Financial Action Task Force (FATF). As such, Pakistan has to abide by the recommendations of FATF and other relevant bodies and implement appropriate policies and procedures. If Pakistani polices are not in line with such recommendations, the image of the country is tarnished. Not only this, but Pakistani businesses and institutions (e.g. financial institutions, importers & exporters, investors, etc) can face difficulties in transacting business internationally with negative economic consequences for the country. Pakistan has enacted the ANTIMONEY LAUNDERING ACT 2010. Financial institutions and intermediaries are required to comply with the provisions of this Act. In the above context, Apex capital market regulator, the Securities and Exchange Commission of Pakistan (SECP) has provided comprehensive guidelines for Pakistan capital market institutions regarding how to develop and implement policies and procedures that will help discourage money laundering and also allow capital market institutions to monitor and remain alert regarding suspicious transactions and/or parties who may be attempting to launder money. In the case of the brokerage industry, SECP being its Apex regulator and the Karachi Stock Exchange Limited being the frontline regulator of the brokerage industry, have formulated detailed set of guidelines for brokers to help them in developing KYC and CDD policies & procedures and implementing the same. Now, this document has been prepared to follow the guidelines and instructions of Regulators and shall be implemented being a broker of KSE, LSE and PMEX. While developing these KYC and CDD policies and procedures, International best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF) have been taken into account.

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Areas of Coverage

Following key Areas has been covered:

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



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Head Office: Ground Floor, Bahria Complex II, M.T. Khan Road, Karachi-74000.

PABX: (92-21) 3561 2290-94 UAN: (92-21) 111 000 375 Fax: (92 21) 3561 2262 Email: info@fs.com.pk URL: www.fs.com.pk

Foundation Edge:

2nd Floor, Bahria Complex II,
M.T. Khan Road, Karachi-74000,
Tel: 0800 87233 (TRADE)
Fax: (92 21) 3561 5240

Pakistan Stock Exchange Karachi Branch:
Room No. 127, 3rd Floor,
Pakistan Stock Exchange Building,
Stock Exchange Road, Karachi.
Tel: (92 21) 32462835-8
Fax: (92 21) 32462696

Gulshan-e-Iqbal Branch:
Mezzanine Floor, SB-08, Block 13-B,
K.D.A Scheme # 24 University Road,
Gulshan-e-Iqbal, Karachi.
Tel: (92-21) 34818141-46,48,49

Lahore Branch:
11-F/1, Main Gulberg,
Jail Road, Lahore.
Tel: (92 42) 35776821-29
Fax: (92 42) 35776830

Islamabad Branch:
Office No. 1212, 12th Floor,
ISE Towers, Jinnah Avenue, Islamabad.
Tel: (92 51) 2895221-28
Fax: (92 51) 2895229

a. Customer Identification

- Customer identification is very important that will protect our company from being used by unscrupulous and/or criminal elements. In this respect minimum documents/information as prescribed by SECP must be obtained from customers at the time of opening of accounts. Further, any additional document/information may be obtained on case to case basis where considered necessary. The key point is that **anonymous or obviously fictitious accounts should not be opened.**
- In case a customer is acting on behalf of another person, then identity of that person shall be ascertained and relevant documents/information of that person need to be obtained also.
- For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies/organizations) additional care shall be taken to establish the ownership and control structure of such an organization and who (i.e. person(s)) actually owns the organization and who manages it. It shall be verified that the person who represents himself as authorized signatory with powers to open and operate the account is actually authorized by the organization.
- For individual customers, proper authorization shall be obtained from person authorized to act on behalf of the customer.
- It shall be ensured that accounts of Institutions/organizations/corporate bodies are not opened in the individual name(s) of employee(s)/official(s). Because of sensitive nature of public sector (government) entities and risk of potential conflict of interest, these accounts shall not be opened in the individual name of any employee/official. Any such account, which is to be operated by an officer of a govt. owned entity, is to be operated by an officer of the Federal/Provincial/Local Government in his/her official capacity, shall be opened only on production of a special resolution/authority from the concerned administrative department, duly endorsed by the Ministry of Finance or Finance Department of the concerned Provincial or Local Government.
- Sufficient information shall be obtained and documented on the purpose and intended nature of account to be opened and a profile shall be developed based on results of customer identification and the risk assessment. Information regarding intended investment plan of the customer must also be obtained to the extent possible and should be documented.
- Sufficient information shall be obtained to determine the expected source of funding for the account, particularly whether the customer shall receiving/remitting funds in foreign currency.
- It must be ensured that all receipts and payments to the customers above the prescribed threshold (i.e. Rs. 25,000/-) are made through cross cheques, bank drafts, pay orders or other crossed banking instruments. For exceptional circumstances where it shall become necessary to accept cash from a customer, reporting of such instances with rationale should be made immediately to the exchanges.
- Physical presence of the customer at the time of opening of account is necessary. In case of off-shore customers or customers in cities where no branch exist, appropriate procedures must be applied to ensure the identification of customer (e.g. third party

verification, references etc.). When obtaining confirmation from the third parties in different jurisdictions, it must be considered whether that jurisdiction is following the FATF recommendations.



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b. Customer Identification

• Risk assessment must be performed of all the existing and prospective customers on the basis of information obtained regarding their identity, nature of income, source of funding, location etc. and based on the results of such assessment, categorize customers among high risk, medium risk and low risk customers.

Following are general broad outline of factors that will categorize the customers into high risk category:

- non-resident customers;
- legal persons or arrangements including non-governmental organizations; (NGOs)/not-for-profit organizations (NPOs) and trusts/charities;
- customers belonging to countries where CDD / KYC and anti-money laundering regulations are lax or if funds originate or go to those countries;
- customers whose business or activities present a higher risk of money laundering such as cash based businesses;
- customers with links to offshore tax havens;
- high net worth customers with no clearly identifiable source of income;
- there is reason to believe that the customer has been refused brokerage services by another brokerage house;
- Non-face-to-face / on-line customers;
- establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations; and
- Politically Exposed Persons (PEPs) or customers holding public or high profile positions

Politically Exposed Persons (PEPs) are individuals who are or have been entrusted with prominent public functions for example senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials. Business relationships with family members or close associates of

PEPs involve reputational risks similar to those with PEPs themselves. The definition is not intended to cover middle ranking or more junior individuals in the foregoing categories.

- Self assessment shall be conducted for money laundering and terrorist financing risk, identifying and documenting the key risks presented by virtue of company's business model, types of customers and geographical placement on case to case basis.

c. Enhanced Due Diligence

- Once a customer has been categorized as HIGH RISK, it is necessary to have Enhanced Due Diligence (EDD) when dealing with such a customer. Activities and transactions of HIGH RISK customers shall be monitored and any unusual transactions shall be reported in suspicious transaction report.

- When dealing with high-risk customers, including Politically Exposed Persons (PEP's), senior management' approval shall be obtained to establish business relationships with such customers. The same shall also apply in case of an existing customer which will be classified as high-risk pursuant to these policies or which will be subsequently classified as a result of ongoing due diligence. Further, reasonable measures shall be taken to establish the source of wealth and source of funds.



- If it will be not possible to comply with the above requirements, account shall not be opened or business relationship shall be terminated, as the case may be and suspicious transaction report shall be submitted.
- When it will be not possible to identify and verify the identity of the customer and the beneficial owner or will be not possible to obtain adequate information regarding the purpose and intended nature of the customer relationship, account shall not be opened, customer relationship shall not be commenced or in the case of an existing customer relationship shall be terminated and filing of a Suspicious Transaction Report shall be considered.

d. On-Going Due Diligence

- It shall be ensured that on-going Due Diligence on the customer relationship and scrutiny of transactions is undertaken to ensure that the transactions executed in a particular account are consistent with the company's knowledge of the customer, its business and risk profile, historical pattern of transactions and the pattern and source of funding of the account.
- It shall be ensured that the customers' records are updated at regular intervals and sufficient information is obtained regarding any significant change in the customers' profiles.

e. Simplified Due Diligence

- CDD measures shall be simplified or reduced in the following circumstances:
 - risk of money laundering or terrorist financing is lower
 - information on the identity of the customer and the beneficial owner of a customer is publicly available
 - adequate checks and controls exist
- Following customers may be considered for simplified or reduced CDD:
 - Financial institutions which are subject to requirements to combat money laundering and terrorist financing consistent with the FATF Recommendations and are supervised for compliance with those controls
 - Public companies that are subject to regulatory disclosure requirements
 - Government administrations or enterprises
- When opting for simplified or reduced due diligence, the FATF guidelines in this regard shall be consulted. Simplified CDD shall not be followed when there is an identified risk of money laundering or terrorist financing.

f. Compliance Function

- A compliance function shall be established with suitable human resource and MIS reporting capabilities, enabling it to effectively monitor the customers' transactions and make timely reports.
- The Head of Compliance function shall have skills and experience necessary for satisfactory performance of functions assigned. Head of Compliance shall be independent and report directly to the Board of Directors.

- The Compliance function shall ensure compliance with the requirements of these policies as well as other regulatory requirements applicable under the relevant legal framework. A record shall be maintained of all violation/ non-compliance identified and reported to the BoD and must be available for the inspection of SECP as and when required.



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g. Data Retention

- It shall be required to maintain the relevant documents obtained through the application of KYC/CDD procedures, especially those pertaining to identification of the identity of a customer, account files and correspondence exchanged for a minimum period of five years.

h. Training and Employee Screening

- Appropriate on-going employee training program and knowledge refreshment shall be arranged to ensure that the employees understand their duties and are able to perform the same on a satisfactory level.
- Staff shall be hired with extra care and all possible screening measures shall be taken including independent inquiries, information from previous employers/colleagues etc. Further, screening process shall be an on-going exercise and shall be applied consistently to ensure that employees, particularly those working at sensitive positions, meet and maintain high standards of integrity and professionalism.

- Any information concerning customers and their transactions shall be provided to the exchanges, Financial Monitoring Unit or the Commission as and when required. All requirements of Anti Money Laundering Act, 2010 as applicable, including the requirement to file Suspicious Transaction Reports and any directives, circulars, guidelines issued in this regard by Federal Government, Financial Monitoring Unit and SECP shall be complied.

A checklist has been developed and annexed to these policies and procedures. Details of necessary documents, information and procedures required to be obtained/followed have been incorporated therein. Further, necessary documents/information required have also mentioned in relevant account opening forms and are not reproduced herein to avoid repetition.

All relevant laws/regulations/recommendations/guidelines/directives of relevant authorities (e.g. SECP, FATF etc.) are available separately.



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