

KOSMOPOLITAN SECURITIES (PVT) LIMITED
Policy Manual on Know Your Customer (KYC)
and Customer Due Diligence (CDD)

1. INTRODUCTION

In the last few years, across the world regulation have been put in place to discourage money laundering and financing of illegal / criminal activities. Furthermore, under the United Nation 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 Task Force (FATF). As such, Pakistan has to abide by the recommendation of FATF and other relevant bodies and implement appropriate policies and procedures. If Pakistani policies are not in line with such recommendations, the image of the country is tarnished. Not only this, but Pakistani business and institutions (e.g. financial institutions, importers and 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 must comply with the provision of this Act.

In the above context, Apex capital market regulator, the SECP have provided comprehensive guidelines for Pakistan capital market institutions regarding how to develop and implement policies and procedures 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 case of the brokerage industry, the Securities and Exchange Commission of Pakistan, being its Apex regulator and the Pakistan Stock Exchange, being the frontline regulator of the brokerage industry, have formulated detailed set of guidelines for broker to help them in developing KYC and CDD policies & procedures and implementing the same. This document will serve as a further explanations for brokers with the objective to enabling them to better understand the above mentioned guidelines and facilitate in implementing the same.

2. THE KYC & CDD POLICY OUTLINE

It is important to highlight that money laundering and financing of criminal activities is a very serious offense and the brokerage community must always remain vigilant that their good offices are not used for any such activity. This is important for the growth and development of individual brokerage houses and the securities industry in Pakistan.

Key areas that the KYC/CDD policy covers include:

- a. Customer Identification.
- b. Risk assessment of customer
- c. Circumstances where Enhanced Due Diligence is required.
- d. On-going due Diligence.
- e. Circumstances where simplified Due Diligence can be adopted.
- f. Compliance function.
- g. Data retention.
- h. Training and employee screening.

The Kosmopolitan Securities (Pvt) Ltd shall also consider international best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF). While they develop their KYC/CDD Policy.

3. CUSTOMER IDENTIFICATION

3.1 It is a basic tenet of Kosmopolitan Securities (Pvt) Ltd to know who its customers are. This helps Kosmopolitan Securities (Pvt) Ltd to protect itself from being used by unscrupulous and/or criminal elements. In this regard, Kosmopolitan Securities (Pvt) Ltd shall take all reasonable care to establish the true identity of customers. A minimum set of documents that need to be obtained from customers/potential customers at the time of opening their brokerage account has been prescribed by the SECP. To be prudent, Kosmopolitan Securities (Pvt) Ltd shall obtain any other document from the account opener if Kosmopolitan Securities (Pvt) Ltd believe it will help in establishing the true identity of the customer and the real controlling person behind the account. The key point is that Kosmopolitan Securities (Pvt) Ltd must not open anonymous or obviously fictitious accounts.

3.2 It is important to recognize if a customer is acting on behalf of another person. If this is the case, then the identity of that person should be ascertained and relevant documents of that person need to be obtained also.

3.3 For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies/ organizations) additional care has to 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 manage it.

3.4 Kosmopolitan Securities (Pvt) Ltd shall verify that the person who represents himself as authorized signatory with powers to open and operate the brokerage account is actually authorized by the organization.

3.5 Kosmopolitan Securities (Pvt) Ltd shall make sure and be careful that account of Institutions/organizations / corporate bodies are not opened in the name of employees(s)/ official(s). Because of sensitive nature of public (government) entities and risk of potential conflict of interest. It is critical for Kosmopolitan Securities (Pvt) Ltd and their representative to ensure that accounts of Govt. Institution are not 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 Provisional or Local Government.

3.6 When an individual or an organization/institution opens brokerage account with Kosmopolitan Securities (Pvt) Ltd It is important to find out and document in broad terms what does the customer intend to do.

3.7 For example, are there any specific sectors or stocks that the customer does not wish to participate in; is the customer intending to invest for short-term only or is the customer intending to invest for longer term; will investment be only in liquid scripts or any script; or any other special needs or requirements of the customer. This, along with customer's other information such as age, gender, occupation; knowledge of market, etc. will help Kosmopolitan Securities (Pvt) Ltd to develop a sense of the risk taking capacity and profile of the customer and thus guide the customer in more effective manner. At the same time, it will also help Kosmopolitan Securities (Pvt) Ltd to understand whether the customer should be classified as a low risk or a high risk customer from the KYC/CDD perspective. For example, domestic customer working in a company with regular income would be low risk category; on the other hand, a government employee may be in a higher risk category because of the potential for conflict of interest; or a foreign organization having foreign currency source would be in high risk category requiring more careful identification procedure and close monitoring of account operations..

Kosmopolitan Securities (Pvt) Ltd shall carefully determine the source of funding especially if the customer is expected to receive/send funds in foreign currency.

3.8 As is already the practice and part of PSX regulations, Kosmopolitan Securities (Pvt) Ltd must follow the regulation that the all receipts/ payments above Rs. 25,000/= are made through cross-cheques, bank drafts, pay orders or other crossed banking instruments. Where any cash is accepted from a customer in an exceptional circumstance only, it has to be immediately reported to the Exchange with clear reasons as to why the cash receipt was accepted by the broker.

3.9 In general, physical presence of the account opener/authorized representative is necessary at the time of opening a brokerage account. In the case of non-resident/overseas customers or customers in other cities where the Kosmopolitan Securities (Pvt) Ltd does not have a branch/office, more strong identity verification procedures should be applied. These include verification by a reliable third party reference of an existing customer of the Kosmopolitan Securities (Pvt) Ltd, customer from another broker with whom the customer had an account etc. Furthermore, it is important when obtaining confirmation from third parties in other jurisdictions, especially foreign, that Kosmopolitan Securities (Pvt) Ltd consider whether that foreign jurisdiction is following the Financial Action Task Force (FATF) recommendations. The list of jurisdictions following FATF recommendations is available.

4. RISK ASSESMENT

4.1 we have discussed assessment and categorization of customers as low, medium or high risk profile above. This risk assessment by brokers has to be done on the basis of information obtained at the time of brokerage account opening and has to be updated on the basis of information obtained during the relationship and doing business with the customer. It should be based on customer's identity, nature of income, source, of funding, location/domicile of customer, etc.

SECP has provided the following broad outline of factors that will categorize the customer into HIGH RISK CATEGORY:

I. Non-resident customers;

II. Legal persons or arrangements including non-governmental organizations; (NGO)/ not-for-profit organizations (NPOs) and trusts / charities;

III. Customers belonging to countries where CDD/KYC and anti-money laundering regulations are lax or if funds originate or go to those countries;

IV. Customers whose business or activities present a higher risk of money laundering such as cash based business;

V. Customers with links to offshore tax havens;

VI. High net worth customer with no clearly identifiable source of income.

VII. There is reason to believe that the customer has been refused brokerage services by another brokerage house;

VIII. Non-face-to-face / on-line customers;

IX. Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations; and

X. Politically Exposed Persons (PEPs) or customers holding public or high profile position.

4.2 “Politically Exposed Persons” (PEPs), PEP’s also fall under HIGH RISK CATEGORY. These generally include individuals in prominent positions such as senior politicians, senior government, judicial or military officials; senior executives of state Corporations AND their family members and close associates. These individuals present reputational risk and potential conflict of interest and extra caution is required when opening their brokerage account and monitoring their account activity. The above is not intended to cover middle ranking/ junior officials in above noted categories. However, prudence requires Kosmopolitan Securities (Pvt) Ltd to be careful.

4.3 In general, Kosmopolitan Securities (Pvt) Ltd shall conduct a self assessment for money laundering and terrorist financing risk, identifying and documenting the key risks presented by virtue of its business model types of customers and geographical placement.

4.4 The bottom line is that Kosmopolitan Securities (Pvt) Ltd shall assess the risk of potential money laundering / terrorism financing.

5. ENHANCED DUE DILIGENCE

5.1 Once a customer has been categorized as HIGH RISK, it is necessary for the Kosmopolitan Securities (Pvt) Ltd to have Enhanced Due Diligence (EDD) when dealing with such a customer. Activities and transactions of HIGH RISK customers are monitored and any unusual transactions are reported in a SUSPICIOUS TRANSACTION REPORT (STR).

5.2 When dealing with high-risk customers, including Politically Exposed Person (PEP's) either Kosmopolitan Securities (Pvt) Ltd itself or nominee director/ senior management of the Kosmopolitan Securities (Pvt) Ltd, has to approve the opening of brokerage account with the board. In the case of HIGH RISK CATEGORY customers, it is all the more important for Kosmopolitan Securities (Pvt) Ltd to determine the source of wealth and funds invested. Exercise of categorizing customers in LOW, MEDIUM, and HIGH RISK category applies to all customers, including existing customers. Thus, if an existing customer falls into the HIGH RISK CATEGORY, the requirements for monitoring and reporting suspicious transactions and senior management approval for continuing with the customer will also apply to such customer(s).

5.3 If the above requirement cannot be fulfilled than Kosmopolitan Securities (Pvt) Ltd shall not open the brokerage accounts of such person(s) and file a Suspicious Transaction Report (STR). In case an existing customer falls into HIGH RISK CATEGORY and the Kosmopolitan Securities (Pvt) Ltd is unable to fulfill the above mentioned requirement, such account should be closed and a Suspicious Transaction Report filed.

6. BROKERAGE ACCOUNT NOT BE OPENED

6.1 Brokerage account shall not be opened if the Kosmopolitan Securities (Pvt) Ltd is unable to verify the identity of the customer /beneficial owner of the account or if it is unclear what the purpose and intention of customer is and should file an STR. If there are any such existing accounts, they should be closed and a Suspicious Transaction Report (STR) filed.

7. ON-GOING DUE DILIGENCE

7.1 It is important for Kosmopolitan Securities (Pvt) Ltd to realize that Customer Due Diligence (CDD) is not a one-time exercise at the time of account opening only. In order to guard against misuse of Kosmopolitan Securities (Pvt) Ltd good offices against criminal transactions Kosmopolitan Securities (Pvt) Ltd need to be vigilant at all the times and keep monitoring transactions of its customers to ensure that the transactions executed in any particular account are within the understanding of the KSL. In term of the customer's profile, risk category, historical pattern of the transactions and their historic funding source. For example, if a domestic individual customer orders a transaction size, the broker has to become alert and be satisfied that no suspicious reportable activity is taking place. Similarly, if a regular domestic customer, all of a sudden shows foreign sources of funds, this is likely to require further the investigation by the Kosmopolitan Securities (Pvt) Ltd.

7.2 Kosmopolitan Securities (Pvt) Ltd shall keep all customer records updated and

assessing any change in customer profile on regular basis which change shall be documented and sufficient information shall be obtained regarding such change.

8. SIMPLIFIED DUE DELIGENCE

8.1 It is acceptable for KSL to apply simplified or reduced CDD measures in the following circumstances:

- a) Risk of money laundering or terrorist financing is lower.
- b) Information on the identity of the customer and the beneficial owner of a customer is publicly available.
- c) Adequate checks and control exist.

8.2 Following customers may be considered for simplified or reduced CDD: Financial Institutions which are subject to requirement to combat money laundering and terrorist financing consistent with the FATF Recommendations and are supervised for compliance with those controls Public companies that are subject to regulatory disclosure requirements. Government administrations or enterprises.

8.3 When opting for simplified or reduced due diligence, the FATF guidelines in this regard must be consulted. Simplified CDD should not be followed when there is an identified risk of money laundering or terrorist financing.

9. COMPLIANCE FUNCTION

9.1 It is important that a system be developed at the Kosmopolitan Securities (Pvt) Ltd end to implement these guidelines. In order to achieve this objective two key elements have to be instituted at the Kosmopolitan Securities (Pvt) Ltd end; (i) Compliance Function with suitable human resources (ii) MIS reporting capability.

9.2 The person responsible for compliance should be designated and he should have sufficient skills and experience to perform the compliance function. Compliance shall report to the Board of Directors.

9.3 It is the responsibility of the compliance function to ensure that KYC/CDD guidelines are being complied with as well as with other regulatory requirements. This includes maintaining record of violation/ non-compliance identified which has to be reported to the Board of Directors. Any such record has to be available for inspection by SECP and PSX as and when required.

10. DATA RETENTION

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

11. TRAINING

There has to be on-going training of employees to understand their duties under KYC/CDD and are able to perform those duties accordingly.

12. SCREENING

12.1 Kosmopolitan Securities (Pvt) Ltd shall take appropriate screening procedures to ensure high standards while hiring staff. The screening process must be an on-going exercise and must be applied consistently to ensure that employees particularly those working at sensitive positions meet and maintain high standards of integrity and professionalism.

12.2 Kosmopolitan Securities (Pvt) Ltd shall provide any information concerning its client and their transaction to the exchanges, Financial Monitoring Unit or the Commission as and when required.

13. OTHER REQUIRMENT

KSL must comply the requirement of ANTI MONEY LAUNDERING ACT 2010.

Annexure A & B of SECP are part of this policy.