

**Friendly Securities (Pvt.) Limited  
(FSL)**

**Anti Money Laundering & Counter  
Financing Terrorism (AML/CFT)**

**Policy Procedures & Control**

**Approved by the Board of Director on  
June 03, 2019**

# Friendly Securities (Pvt.) Ltd

## Anti Money Laundering & Counter Financing Terrorism (Policy & Procedures)

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### 1 INTRODUCTION AND STATEMENT

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Friendly Securities (Private) Limited ("FSL") is Brokerage House which deals with almost all Investors and High Net worth Individuals. Therefore, in order to protect its clients from increasing danger of money laundering, there needs to be a KYC and AML Policy to ensure protection of its interest and so of its participants.

Securities and Exchange Commission of Pakistan ("SECP") in respect of preventing and combating ML and TF issued Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018. The SECP AML/CFT Regulations require Securities Brokers to establish systems to detect Money Laundering and Terrorist Financing. Therefore, to ensure the protection of Friendly Securities (Private) Limited from being abused for money laundering or financing terrorism, FSL Compliance has designed policy that is updated on latest guidelines provided by SECP

Money Laundering (**ML**) and Terrorist Financing (**TF**) are crimes that threaten a country's overall financial sector reputation and expose financial institutions to significant operational, regulatory, legal and reputational risks, if used for **ML** and **TF**. An effective Anti-Money Laundering and Countering the Financing of Terrorism (**AML / CFT**) regime requires financial institutions to adopt and effectively implement appropriate **ML** and **TF** control processes and procedures, not only as a principle of good governance but also as an essential tool to avoid involvement in **ML** and **TF**.

In accordance of the Guidelines and Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018, Friendly Securities (Pvt) Ltd hereinafter called FSL being a Regulated Person as defined in the Regulations is committed to comply with all the relevant and applicable laws and obligations regarding the anti-money laundering procedures. (**FSL**) has adopted the provisions of the **AML / CFT** Regulations and shall take appropriate steps to identify, assess and understand its money laundering and terrorism financing risks and shall conduct a comprehensive compliance program.

Board of Directors and Senior Management of (**FSL**) are engaged in the decision making on **AML / CFT** policies, procedures, control and take ownership of the risk based approach. They all are well aware of the level of **ML** and **TF** risks.

(**FSL**) has designated a Compliance Officer/s who shall be responsible for maintaining an effective **AML / CFT** compliance culture and will conduct training for its staff to identify suspicious activities and adhere with the internal reporting requirements for compliance with the Regulations. The Compliance Officers shall report directly to the Board of Directors or to another equivalent Executive Position or Committee. They shall ensure that (**FSL**) is fully complied with the relevant provisions of **AML / CFT** Regulations. They shall monitor, review and update the policies and procedure. They shall timely report of the suspicious transactions.

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### 2 OBJECTIVE

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- To understand the obligations of establishing an effective **AML/CFT** regime to deter Criminals from using financial system for **ML** and **TF** purposes.
- To develop a comprehensive **AML/CFT** compliance program to comply with all the applicable Rules and Regulations.
- To give priority, to establish and maintain an effective **AML/CFT** compliance culture and must adequately train its staff to indentify suspicious activities and adhere with the internal reporting requirements for compliance with the regulations.
- To conduct a training program for the awareness of the staff so that in the event of a suspicious activity being discovered, they are aware of the reporting chain and the procedures to be followed.
- To oversee the compliance function.
- To designate a Compliance Officer/s who shall ensure that (**FSL**) is fully complied with the relevant provisions of **AML / CFT** Regulations, who shall ensure that the reporting of suspicious transaction is made and shall monitor, review and update the policies and procedure. Compliance Officer/s shall be the point of contact with the supervisory authorities.

### 3 MONEY LAUNDERING

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Money laundering means the methods criminals use to hide and disguise the true nature and origin of the money they make from their crimes.

The term "laundering" is used because criminals need to turn their "dirty" criminal money into clean funds that they can use without arousing suspicion. Getting the criminal money into the financial system means that it becomes harder to trace and confiscate. Drug traffickers, armed robbers, terrorists, illegal arms dealers, fraudsters, and tax evaders all need to launder the proceeds of their crimes.

The goal of a large number of criminal acts is to generate a profit for the individual or group that carries out the act. Money laundering is the processing of these criminal proceeds to disguise their illegal origin. This process is of critical importance, as it enables the criminal to enjoy these profits without jeopardizing their source.

As money laundering is a consequence of almost all profit generating crime, it can occur practically anywhere in the world. Generally, money launderers tend to seek out countries or sectors in which there is a low risk of detection due to weak or ineffective anti-money laundering programs.

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When a criminal activity generates substantial profits, the individual or group involved must find a way to control the funds without attracting attention to the underlying activity or the persons involved. Criminals do this by disguising the sources, changing the form, or moving the funds to a place where they are less likely to attract attention.

## 4 COMPLIANCE OFFICER/S

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A Compliance Officer/s has/have been designated who shall ensure that **(FSL)** is fully complied with the relevant provisions of **AML / CFT** Regulations, who shall ensure that the reporting of suspicious transaction is made and shall monitor, review and update the policies and procedure. He/they shall be the point of contact with the regulatory authorities. The officer/s will be responsible for the following areas:

- a) maintaining an effective **AML / CFT** compliance culture
- b) ensures that **(FSL)** is fully complied with the relevant provisions of **AML / CFT** Regulations
- c) conduct training for its staff to identify suspicious activities
- d) Review of Account Opening Forms and sign off from Compliance perspective
- e) monitor, review and update the policies and procedure
- f) timely report of the suspicious transactions
- g) timely submission of accurate data
- h) to authorize the account to be processed
- i) other responsibilities as the **(FSL)** may deem necessary in order to ensure Compliance with the Regulations.

## 5 MONEY LAUNDERING USING INVESTMENT RELATED TRANSACTIONS

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- a) Purchasing of securities to be held by the institution in safe custody, where this does not appear appropriate given the customer's apparent standing;
- b) request by customers for investment management or administration services (either foreign currency or securities) where the source of the funds is unclear or not consistent with the customer's apparent standing;
- c) large or unusual settlements of securities in cash form; and
- d) buying and selling of a security with no discernible purpose or in circumstances which appear unusual
- e) The laundering process is for criminals to attempt to get the proceeds of their crimes into financial institution, sometimes using a false identity. They can later transfer proceeds to any other bank or equity accounts, in Pakistan or abroad, or withdraw it to buy other goods

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or services. It eventually appears to be like any legally earned money and becomes difficult to trace back to its criminal past. The criminals can then invest or spend it or, as is often the case, use it to fund more crime.

## 5.1 COMPANY STRATEGY IN PREVENTING MONEY LAUNDERING

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- Cash based societies and countries without fully comprehensive Anti-Money laundering programs are especially attractive to the launderers. Thus, our own degree of vigilance must reflect these potential vulnerabilities. Cash payments arising from drug related crimes are by no means the only risk. Corruption by various individuals and companies including public officials inevitably involves fraud or theft and handling the proceeds of large scale corruption can produce a serious reputational risk for the Company.
- FSL has established a compliance department with suitable capabilities and enable it to effectively monitor the customers' transactions and make timely reports.
- The Head of Compliance department should have skills and experience necessary for satisfactory performance of functions assigned. Head of Compliance will be independent and report directly to the Board of Directors.
- The Compliance department will ensure compliance with the requirements of the policies and procedures as well as other regulatory requirements applicable under the relevant legal framework. A record will be maintained of all violation/noncompliance identified and reported to the BOD and must be available for the inspection of SECP as and when required.

## 6 RISK ASSESSMENT

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FSL shall take appropriate steps to identify, assess and understand, its money laundering and terrorism financing risks in relation to-

- i its customers
- ii the jurisdiction or countries, its customers are from
- iii the product, services, transactions and delivery channels of FSL

The appropriate steps as mentioned above shall include:

- i documenting the risk assessment

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- ii Payments received from unknown or un-associated third parties;
- iii International transactions, or involve high volumes of currency (or currency equivalent) transactions
- iv Non-face-to-face business relationships or transactions;
- v Anonymous transactions (which may include cash);
- vi Products that involve large payment or receipt in cash;
- vii considering all the relevant risk factors before determining the level of overall risk and the appropriate type and extent of mitigation to be applied
- viii keeping the risk assessment up-to-date
- ix categorizing the overall entity level risk at high, medium or low based on the result of risk assessment
- x having appropriate mechanisms to provide its risk assessment information to the Commission

FSL shall take into account all the relevant risk factors, such as geography, products and services, delivery channels, types of customers, or jurisdictions within which it or its customers do business. Senior management should understand the nature and level of the risks that they are exposed to and ensure that systems and processes are in place to identify, assess, monitor, manage and mitigate ML/TF risks.

The process of ML/TF risk assessment has four stages:

- 1) Identifying the area of the business operations susceptible to ML/TF;
- 2) Conducting an analysis in order to assess impact of the assessed risk;
- 3) Managing the risks; and
- 4) Regular monitoring and review of those risks.

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.

### **6.1 RISK CATEGORIES**

Based on the results of such assessment, categorize customers among high risk and low risk customers.

- **High Risk Customers**

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

- non-resident customers
- legal persons or arrangements
- Companies that have nominee shareholders;

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- Politically Exposed Persons (PEPs) or customers holding public or high profile positions
  - 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;
  - establishing business relationship or transactions with counterparts from or in countries as having significant level of corruption or other criminal activities; and
  - payments received from unknown or un-associated third parties.
- **Low Risk Customers**

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

- customers belonging to countries as having effective AML/ CFT systems
- customers belonging to countries as having a low level of corruption or other criminal activities;
- low net worth customers;
- customers whose source of income are clearly identifiable

### **6.2 RISK MITIGATION AND APPLYING RISK BASED APPROACH**

**FSL**, before determining what is the level of overall risk and the appropriate level and type of mitigation to be applied, take into account, all the relevant risk factors such as products and services, delivery channels, types of customers, or jurisdiction within which it or its customers do business.

(**FSL**) shall understand, identify and assess the inherent **ML** and **TF** risks posed by its customer base, products and services offered, delivery channels and the jurisdictions within which or its customers do business, and any other relevant risk category.

The senior management will understand the nature and level of the risks that they are exposed to and ensure that systems and processes are in place to identify, assess, monitor, manage and mitigate **ML** and **TF** risks.



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Where there will be higher risk, **FSL** will take enhanced measures to manage and mitigate those risks.

The Company will not continue established relationships with customers whose conduct gives rise to suspicion of involvement with illegal activities. Any customer relationship where the customer's conduct gives the Company reasonable cause to believe or suspect involvement with illegal activities will be reported by the Compliance Officer to the SECP after proper scrutiny in consultation with the respective line manager. Thereafter, action will be undertaken in conjunction with the law enforcement agencies to avoid any risk of the Company committing a tipping-off offence. Wherever possible, the relationship will be terminated.

## 7 POLICIES AND PROCEDURES

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### PROCEDURE FOR INDIVIDUALS

For identifying the customer, the following information / documents will be obtained and the same will be recorded with Account Opening Forms:

- Account Holder Name
- Mailing Address (preferably home address)
- Permanent Address (preferably home address)
- NTN No. (if available)
- Jurisdiction of Residence
- Nationality
- Email Address
- Details of Bank Account (IBAN )
- Source of Income
- Computerized National Identity Card No.

### **DOCUMENTS**

Any one of the following valid identity will be required:

- Computerized National Identity Card (CNIC) issued by NADRA
- National Identity Card for Overseas Pakistani (NICOP) issued by NADRA
- Pakistan Origin Card (POC) issued by NADRA
- Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only)
- Passport; having valid visa on it or any other proof of legal stay along with passport (foreign national individuals only)
- Proof of business and employment

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### **PROCEDURE FOR PARTNERSHIP, TRUST, LIMITED**

#### **COMPANIES/CORPORATIONS, ANY OTHER LEGAL ENTITY**

(FSL) shall take all reasonable measures and satisfactory evidence of any entity to ensure the compliance of the Regulations.

The following information will be obtained and the same will be recorded with Account Opening Forms:

- Name of Company
- Registration No.
- Date of Incorporation
- Business Commenced on
- Status
- Type
- Email, Website
- Contact Numbers
- Mailing Address
- NTN Number
- Contact Person
- Bank Account
- Expected Mode of Transactions

#### **DOCUMENTS**

- Certified copies of:
  - i Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account
  - ii Memorandum and Articles of Association
  - iii Certificate of Incorporation
  
  - iv Certificate of Commencement of Business, wherever applicable
  - v List of Directors on Form-A / Form-B issued under Companies Act, 2017, as applicable and Form-29 where applicable
  - vi Photocopies of identity documents for all the directors and persons authorized to open and operate the account

#### **VERIFICATION OF IDENTITY DOCUMENTS**

The identity documents shall be validated through NADRA verisys or NCSS data base only.

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### PROGRAMS AND SYSTEMS

- **FSL** shall have a system in place to monitor the risks
- **FSL** shall have systems in place to identify and assess **ML** and **TF** risks that may arise in relation to the development of new products and new business practices
- **FSL** shall have systems and controls that are comprehensive and proportionate to the nature, scale and complexity of their activities and the **ML** and **TF** risks, they identified

### MODE OF PAYMENT

All payments must be made through cross cheques (in favor of Account Holder and CNIC number on the check) or other banking channels. Where payment is made through cross cheques or other banking channels, (**FSL**) must keep copy of the cheques issued, for the purposes of record and must maintain copy of other banking channels.

**FSL** shall ensure that amount in excess of Rs. 25,000/- will only be received from a customer, in CASH, in exceptional circumstances, where it becomes necessary and such instances will be reported to the Stock Exchange. Any amount received must be deposited immediately in the bank's "Clients" account.

## 8 SUSPICIOUS TRANSACTIONS

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STRs include detailed information about transactions that are or appear to be suspicious in terms of AML Regulations. FSL shall comply with the provisions of AML Act, rules and regulations issued there under for reporting of suspicious transactions in the context of money laundering or financing of terrorism.

In pursuance to the above, the compliance officer should review and monitor the transactions of customer's accounts on an ongoing basis in accordance to the policy.

While reviewing transactions, the compliance officer should pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. Where an applicant or a Customer is hesitant/fails to provide adequate documentation (including the identity of any beneficial owners or controllers), the FSL shall consider filling a STR.

The transactions, which are out of character or inconsistent with the history, pattern, or normal operation of the account including through heavy deposits, withdrawals and transfers, etc should be viewed with the suspicion, and be properly investigated.

If Compliance officer decides to report any transaction/ account to the FMU as "Suspicious" based on the justifiable grounds, the same should be reported to FMU under intimation to the CEO/ Chairman of the board.

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All the employees of FSL are strictly prohibited to disclose the fact to the customer or any other quarter that a suspicious transaction or related information is being or has been reported to any authority, except if required by law.

The FSL shall maintain STRs and their accompanying documentation for at least five years from the date of creation or the date the customer closes his account, if later. Other documents will be kept according to the requirements of existing rules and regulations.

FSL will report to Securities and Exchange Commission of Pakistan (SECP) all unusual or large transactions in an equity account which apparently have no genuine economic, commercial or lawful purpose provided that the Company after complete investigation/inquiry come to a conclusion that such transactions are not for economic, commercial or lawful business purpose and relate to illegal or illicit activities, corruption or corrupt practices and narcotic activities.

All requirements of Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018 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 will be complied.

A register will be maintain regarding FMU report. Such register will contain the following details:

- 1) Date of the report;
- 2) Person who made the report;
- 3) Person to whom the report was forwarded; and
- 4) Reference by which supporting evidence is indefinable.

## 9 CUSTOMER DUE DILIGENCE

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(FSL) shall verify the identity of the customer and beneficial owner before or during the course of establishing a business relationship or may complete verification after the establishment of the business relationship.

To comply with the Regulations, (FSL) shall ensure the following:

- identify the customer or beneficial owner and verifying the customer's / beneficial owner's identity on the basis of documents, data or information obtained from customer and / or from reliable and independent sources, data or information including verification of CNICs from Verisys or other available resources.

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- understanding and, as appropriate, obtaining information on the purpose and intended nature of the business relationship
- take steps to know who their customers are
- not to keep anonymous accounts or accounts in fictitious name
- their customers are, who they purport themselves to be
- Government Account shall not be opened in the personal names of the government officials.
- differentiate the extent of CDD measures, depending on the type and level of risk for the various risk factors
- In case the FSL is not been able to satisfactorily completed required CDD measures, account shall not be opened or any service provided and consideration shall be given if the circumstances are suspicious so as to warrant the filing of an STR.
- In respect of accounts for sole traders, partnerships and companies, it is necessary to verify the identity of the business entity PLUS the key individuals who will be operating the account as well as those who are investing into the business or controlling it.
- examine, as far as reasonably possible, the background and purpose of all complex, unusual large transactions, and all unusual patterns of transactions, that have no apparent economic or lawful purpose
- FSL shall not provide services to Proscribed Individuals, Groups and Entities declared/listed by UNSC (United Nations Security Council) and/ or by OFAC (Office of Foreign Asset Control –USA) OR those who are known for their association with such entities and persons, whether under the proscribed name or with a different name.
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### **9.2 ENHANCED DUE DILIGENCE**

Once a customer will be 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 will be monitored and any unusual transactions will be reported in suspicious transaction report.

FSL staff members will perform the following procedures for high risk business relationship:

- shall conduct Enhanced Due Diligence on individuals and / or entities based in high-risk countries
- shall ensure to have AML/CFT measures consistent with the requirements of Pakistan
- shall adopt risk management procedures with respect to the conditions under which an applicant may utilize the business relationship, prior to verification
- Obtain additional information (e.g. occupation, volume of assets, information available through public databases, internet, etc.).
- Update more regularly the identification data of applicant/customer and beneficial owner
- Obtain additional information on the source of funds or source of wealth of the applicant/customer
- Obtain the approval of senior management to commence or continue the business relationship.

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- Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.
- Obtain additional information on the intended nature of the business relationship.

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.

### **9.3 SIMPLIFIED DUE DILIGENCE**

In cases where LOW RISKS will be identified, staff will may apply simplified or reduced CDD/ KYC measures. However, the decision to rate a customer as LOW RISK will be justified in writing and approved by the senior management.

1. CDD measures shall be simplified or reduced in the following circumstances:  
Risk of money laundering or terrorist financing is lower.
2. Information on the identity of the customer and the beneficial owner of a customer is publicly available.
3. Adequate checks and controls exist.

Simplified Due Diligence will may include the following:

- 1) Reduce the frequency of customer identification updates;
- 2) Reduce the degree of ongoing monitoring; and
- 3) Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of business relationship.

Following customers may be considered for simplified or reduced CDD:

- 1) 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
- 2) Public companies that are subject to regulatory disclosure requirements.
- 3) Government administrations or enterprises.

Simplified CDD shall not be followed when there is an identified risk of money laundering or terrorist financing.

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### 9.4 ONGOING MONITORING

As CDD is not a one-time exercise, once the identification procedures have been completed and the business relationship is established, FSL will conduct monitoring to ensure that it is consistent with the nature of business stated when the relationship / account was opened. (FSL) shall conduct ongoing monitoring of their business relationship with their customers which includes scrutinizing the transactions undertaken throughout the course of the business relationship with a customer.

The Friendly Securities (Private) Limited shall conduct ongoing monitoring of their business relationship with its Customers. Ongoing monitoring helps the Friendly Securities (Private) Limited to keep the due diligence information up-to-date, and review and adjust the risk profile of the customers, where necessary.

The Friendly Securities (Private) Limited conduct on-going due diligence which include scrutinizing the transactions undertaken through the course of business relationship with a Customer.

The Friendly Securities (Private) Limited shall be vigilant for any significant changes or inconsistencies in the pattern of transactions. Inconsistency is measured against the stated original purpose of the accounts. Possible areas to monitor could be:

Transaction Type:  
Frequency  
Amount  
Geographical Origin / Destination  
Account Signatories

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The Friendly Securities (Private) Limited shall take the following steps to ensure that its Customers are who they purport themselves to be:

- To identify and verify the Customers including their beneficial owners
- To understand the intended nature and purpose of the relationship;
- To know actual ownership; and
- To know control structure of the Customer.

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The Friendly Securities (Private) Limited shall conduct ongoing due diligence on the business relationship and scrutinize transactions undertaken throughout the course of that relationship to ensure that transactions being conducted are consistent with:

- Knowledge of the Customer;
- Business and Risk Profile;
- Where necessary, the source of funds.

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### **9.5 RECORD KEEPING**

- **FSL** shall ensure that all the information obtained in the context of CDD is recorded
- **FSL** shall retain the documents for at least 5 years after the end of the business relationship
- **FSL** shall, however, retain those documents where there is a suspicious activity or **FSL** is well aware of a continuous investigation / litigation into **ML** and **TF**, relating to a customer or a transaction, till the confirmation is received that the matter has been concluded.

STRs filed (if any) and any supporting documentation shall be kept confidential by the Compliance Officer.

No information shall be passed on to anyone outside of a law enforcement or regulatory agency and / or securities regulators about STR.

Disclosure prohibition shall not be limited to the person involved in the transaction that is the subject to the STR, but rather applies to all persons except as specifically authorized by regulations. For example, the Company may reveal the existence of the STR with certain affiliates such as a parent company provided the affiliate is subject to STR regulation. Since the affiliate may not reveal the existence of that STR with an affiliate of its own, the Company has policies and procedures in place to ensure that the affiliate protects the confidentiality of the STR. The Company will obtain assurance that the affiliate has appropriate AML policies to maintain the confidentiality of such information.

The Company will limit access of information to a "need to know" basis, and restrict areas for reviewing STRs and maintain a log of access to STRs, as well as highlight the confidentiality concerns before a person may access information to STRs.

Request for any information regarding STR's should be handled only by the Company's Compliance Officer. The compliance officer is responsible for verifying the request comes from an appropriate law enforcement or enforcement agency and the request should come in form of E-mail or written format so the compliance officer can verify the authenticity of such request by replying to the e-mail or checking the authenticity of the address and calling the person making such request.

#### Responsibility for AML Records and STR Filing

AML Compliance Officer and his designee will be responsible to ensure that AML records are maintained properly and that STRs are filed as required.

If any law enforcement agency request that the Company keep an account open, such request must be in writing and must be maintained for a period of five years after the request has expired. (It should be noted that the Company does not have to honor such request and can close such account)



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As part of our AML program, the Company will create and maintain STRs & CTRs and relevant documentation on customer identity and verification, and funds transfers and transmittals as well as any records related to customers required by the implemented AML rules and regulations.

The FSL shall maintain STRs and their accompanying documentation for at least five years from the date of creation or the date the customer closes his account, if later. Other documents will be kept according to the requirements of existing rules and regulations.

FSL should ensure that all information obtained in the context of CDD is recorded for a minimum period of five years.

Where there has been a report of a suspicious activity, records relating to that activity or the customer should be retained until confirmation is received that the matter has been **concluded**.

### **9.6 POLITICAL EXPOSED PERSONS (PEPs)**

FSL, in relation to PEPs, in addition to performing normal due diligence measures, shall ensure

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 definition is not intended to cover middle ranking / junior officials in above noted categories. However, prudence requires brokers to be careful while dealing with such customers.

#### **(A) Politically Exposed Persons Categories**

The difference between foreign and domestic PEPs may be relevant for firms making specific risk assessments. To help clients gain a holistic view of potential risk. In the first instance PEPs are classified at a high level in the following categories:

##### **Foreign PEPs**

Individuals who are, or have been entrusted with prominent public functions by a foreign country, for example heads of state or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

##### **Domestic PEPs**

Individuals who are, or have been entrusted domestically with prominent public functions, for example heads of state or of government, senior politicians, senior government, judicial or

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military officials, senior executives of state owned corporations, important political party officials.

### **International organization PEPs**

Persons who are, or have been entrusted with a prominent function by an international organization, refers to members of senior management or individual who have been entrusted with equivalent functions i.e. directors, deputy directors, and members of the board or equivalent functions.

### **Family members**

Individuals who are related to a PEP either directly (consanguinity) or through marriage or similar (civil) forms of partnership.

### **Close associates**

Individuals who are closely connected to a PEP, either socially or professionally.

### **(B) How you will seek approval from senior management?**

The Friendly Securities (Private) Limited shall obtain Senior Management approval to determine the nature and extend of EDD where the ML/TF risks are high.

### **In assessing the ML and TF risks of a PEP, FSL shall consider factors such whether the customer who is a PEP:**

- i is from a high risk country
- ii has prominent public functions in sectors known to be exposed to corruption
- iii has business interests that can cause conflict of interests (with the position held)
  
- iv Has business interests that can cause conflict of interests (with the position held).
- v The information that is provided by the PEP is inconsistent with other (Publicly available) information, such as asset declarations and published official salaries;
- vi Has business interests that can cause conflict of interests (with the position held).
- vii Has prominent public function in sectors know to be exposed to corruption?
- viii A PEP uses multiple bank accounts for no apparent commercial or other reason;
- ix The FSL shall take a risk based approach in determining whether to continue to consider a customer as a PEP who is no longer a PEP. The factors that they should consider include:
  - x The level of (informal) influence that the individual could still Exercise;
  - xi 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).
  - xii Additionally, where appropriate, FSL shall consider filing a STR.

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### **9.7 BENEFICIAL OWNERSHIP OF LEGAL PERSONS AND LEGAL ARRANGEMENTS**

Where the customer is a legal person, in addition to other measures the company shall-

- (a) Understand the nature of the customer's business and its ownership and control structure by asking questionnaires and recording on SAOF
- (b) Identify and verify the identity of the natural persons (whether acting alone or together) who ultimately own the legal person by obtaining relevant information from the customer by acquiring the following Certified copies of:
  - Resolution of Board of Directors for opening of account specifying the person(s) authorized to
  - open and operate the account;
  - Memorandum and Articles of Association;
  - Certificate of Incorporation;
  - Certificate of Commencement of Business, wherever applicable;
  - List of Directors on 'Form-A/Form-B' issued under Companies Act, 2017, as applicable; and
  - Form-29, wherever applicable.
  - Photocopies of identity documents of all the directors and persons authorized to open and operate the account;
- (c) Where there is doubt under Memorandum and Article of Association as to whether the natural persons who ultimately own the legal person are the beneficial owners or where no natural persons ultimately own the legal person, identify the natural persons (if any) who ultimately control the legal person or have ultimate effective control of the legal person by probing and investigating the documents obtained.
- (d) Where no natural persons are identified under clause Memorandum and Articles of Association or Certificate of Incorporation, identify the natural persons having executive authority in the legal person, or in equivalent or similar positions

If the FSL has any reason to believe that an applicant has been refused facilities by another FSL due to concerns over illicit activities of the customer, it should consider classifying that

Applicant

As higher risk and apply enhanced due diligence procedures to the customer and the relation ship Filling STR; and / or

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

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### 10 EXISTING CUSTOMERS

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FSL shall apply CDD measures to existing customers on the basis of materiality and risk, and to conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained.

### 11 EMPLOYEE TRAINING AND SCREENING

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Appropriate on-going employee training program and knowledge refreshment will be arranged to ensure that the employees understand their duties and are able to perform the same on a satisfactory level

Staff will be hired with extra care and all possible screening measures will be taken at the time of hiring 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.

FSL should ensure that all appropriate staff, receive training on ML/TF prevention on a regular basis, ensure all staff fully understand the procedures and their importance, and ensure that they fully understand that they will be committing criminal offences if they contravene the provisions of the legislation. Training to staff will be provided annually.

Training to employees will be provided regarding the following matters:

- Legal or regulatory requirements and their obligations;
- AML/ CFT and KYC policies and procedures;
- How to verify the customer identity.
- How to assess the risk.
- Suspicious activities
- Verification procedures.
- Guidelines issued by Regulatory Bodies
- Due Diligence procedures
- Record keeping or data retention procedures

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### 12 INTERNAL AUDIT FUNCTION

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Internal audit function should be establish that will maintain internal controls in relation to;

- Client level compliance
- Check the completed trial for selected client.
- The Standardized Account Opening Form (SAOF) of the clients is in compliance with the requirements of these Regulations
- Review that the Broker's correspondence/contract notes relating to the transactions of business contain the information as specified in the Regulations
- Check in respect of selected clients that all transactions for buying, selling in all markets, margins, payments, receipts, brokerage commissions charged, payable and receivable are recorded in records and books of accounts [manually or electronically] in timely, adequate, proper, identifiable and in a manner verifiable on UIN / Client Code basis
- Check that a mechanism is in place by the Broker to ensure and monitor the compliance culture
- Test transaction in all areas, with emphasis on high-risk areas, products and services
- Check that the Compliance Officer/Internal Audit Department of the Broker ensures compliance of AML/CFT Regulations
- Check an audit function to test the AML/CFT systems, policies and procedures
- Assess Compliance with the relevant rules and regulations
- employees knowledge of relevant laws and regulations, and
- Assess the adequacy, accuracy and completeness of training programs
- Transaction pattern matches with Red Alerts or guidance provided by FMU on ML/TF typologies.
- Any other risk factors etc

### 13 REGULAR REVIEW

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FSL shall, on a regular basis, conduct an AML / CFT internal review to evaluate the effectiveness of compliance with AML / CFT policies and procedures.