

## **KYC/CDD Policy of the Fairtrade Capital Securities (Pvt.) Limited is as follows:**

Key features of our KYC/CDD policy are as under:

- 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

**Fairtrade Capital Securities (Pvt.) Limited** also considers International best practices, recommendations from the relevant bodies such as Financial Action Task Force (FATF) in their KYC/CDD policy

### **1. CUSTOMER IDENTIFICATION**

- 1.1 It is a basic tenet of any business to know who its customers are. Therefore **Fairtrade Capital Securities (Pvt.) Limited** has decided to obtain minimum set of documents from the customer or potential customer so that their identification can be checked. That may include attested copies of CNICs (original must be seen on face to face meeting) along with additional documents such as proof of or source of income can be obtained if additional KYC is required.
- 1.2 It is important to recognize if a customer is acting on behalf of another person. If this is the case, than **Fairtrade Capital Securities ensures** the identity of that person and obtain all the relevant documents.
- 1.3 For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies/ organizations), **Fairtrade Capital Securities (Pvt.) Limited** would take additional care.

**Fairtrade Capital Securities** would 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.

- 1.4 **Fairtrade Capital Securities** will make sure and be careful that accounts of Institutions/ organizations / corporate bodies are not opened in the name of employee(s)/official(s). Because of sensitive nature of public sector (government) entities and risk of potential conflict of interest, **Fairtrade Capital Securities** and its representatives would ensure that accounts of Govt. Institutions are not opened in the individual name of any employee/official.
- 1.5 When an individual or an organization/institution opens brokerage account with **Fairtrade Capital Securities**, we find out and document in broad terms what does the customer intend to do. For example, are there any specific sectors or stocks that the customer does not which 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 scrips or any scrip; 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.

It will also help **Fairtrade Capital Securities** to understand whether the customer should be classified as a low risk or a high risk customer from the KYC/CDD perspective. For example, a 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 sources would be in high risk category requiring more careful identification procedure and close monitoring of account operations.

- 1.6 **Fairtrade Capital Securities (Pvt) Limited** follow the regulations that the all receipts/payments above Rs25,000/= 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.

- 1.7 To open account in **Fairtrade Capital Securities**, 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 broker 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 broker, confirmation 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 brokers consider whether that foreign jurisdiction is following the Financial Action Task Force (FATF) recommendations. The list of jurisdictions following FATF recommendations is available.

## 2. RISK ASSESSMENTS

We have discussed assessment and categorization of customers as low, medium or high risk profile above. This risk assessment by **Fairtrade Capital Securities** is being 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.

**Fairtrade Capital Securities** would adopt guidelines provided by SECP. 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; (NGOs)/ 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 customers 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 positions
- 2.1 "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 definition is not intended to cover middle ranking / junior officials in above noted categories. However, prudence requires brokers to be careful.

- 2.2 In general, please note that **Fairtrade Capital Securities** 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
- 2.3 The bottom line is that **Fairtrade Capital Securities** need to assess the risk of potential money laundering / terrorism financing and the guidelines and this commentary will help in documenting such risk if the broker assesses that it exists.

### 3. **ENHANCED DUE DILIGENCE**

- 3.1 Once a customer has been categorized as HIGH RISK, it is necessary for the broker to have Enhanced Due Diligence (EDD) when dealing with such a customer. Policies and procedures should be put in place so that activities and transactions of HIGH RISK customers are monitored and any unusual transactions are reported in a SUSPICIOUS TRANSACTION REPORT (STR).
- 3.2 In the above context, when dealing with high-risk customers, including Politically Exposed Persons (PEP's) either the Exchange member himself (in case of individual members) or nominee

Director / senior management of the corporate brokerage house has to approve the opening of brokerage account. In the case of HIGH RISK CATEGORY customers, it is all the more important for brokers to determine the source of wealth and funds invested.

It should be noted that this exercise of categorizing customers in LOW, MEDIUM, HIGH RISK category applies to all customers, including existing customers. Thus, once the broker has carried out the above exercise, if an existing customer falls into the HIGH RISK CATEGORY, the above requirements for monitoring and reporting suspicious transactions and senior management approval for continuing with the customer will also apply to such customer (s)

3.3 If the above requirements can not be fulfilled by the broker, **Fairtrade Capital Securities** than they should not open the brokerage account of such person(s) and file a Suspicious Transaction Report (STR). In case an existing customer falls into HIGH RISK CATEGORY and the broker is unable to fulfill the above mentioned requirements, such account should be closed and a Suspicious Transaction Report filed.

3.4 Similarly, brokerage account would not be opened if **Fairtrade Capital Securities** 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.

#### **4. ON-GOING DUE DILIGENCE**

4.1 It is important for brokers including **Fairtrade Capital Securities** and their agents 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 their good offices against criminal transactions **Fairtrade Capital Securities** need to be vigilant at all the times, and keep monitoring transactions of their customers to ensure that the transactions executed in any particular account are within the understanding of the Broker in terms 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 that is significantly different from the average historical 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 investigation by the broker.

4.2 In the above context, brokers should keep all customer records updated and have a policy of assessing any change in customer profile on regular basis, which change should be documented and sufficient information should be obtained regarding such change.

## **5. SIMPLIFIED DUE DILIGENCE**

The purpose of the KYC/CDD guidelines is not to make brokers' operations unnecessarily cumbersome, but to help the broker community guard against their services from being used for money laundering by unscrupulous elements. In this regards:

5.1 it is acceptable for **Fairtrade Capital Securities** 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 controls exist

5.2 Accordingly, 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

5.3 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.

## **6. COMPLIANCE FUNCTION**

6.1 While the above noted KYC/CDD guidelines are being provided to help brokers and their agents understand the processes involved in KYC/CDD, it is important that a system be developed at the **Fairtrade Capital Securities** ' end to implement these guidelines. This will help brokers to monitor customer transactions and report any suspicious activity in a timely manner. In order

to achieve this objective two key elements have to be instituted at the brokers' end: (i) Compliance Function with suitable human resource (ii) MIS reporting capability

- 6.2 In this context, the person responsible for compliance should be designated and he/she should have sufficient skills and experience to effectively perform the compliance function. In case of individual members of the Exchange, they should identify the person who will be responsible for compliance. In the case of corporate members of the Exchange the individual identified to ensure compliance should report to the Board of Directors of the Corporate Brokerage House.
- 6.3 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 violations / 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 KSE as and when required.

## **7 DATA RETENTION**

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

## **8 TRAINING**

There would be on-going training of **Fairtrade Capital Securities**, their employees and agents to ensure that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily.

## **9 SCREENING**

In order to ensure, for their own safety, that unscrupulous elements do not become employees/agents, **Fairtrade Capital Securities** would have appropriate screening procedures when hiring and also on an ongoing basis to ensure high standards of staff in terms of honesty, integrity, ethics and

professionalism. This is important not just for the sake of brokers' own safety and reputation but the reputation of the Capital Market.

**Note: Fairtrade Capital Securities** (like other financial institutions) is bound by the requirements of ANTI MONEY LAUNDERING ACT 2010, as applicable to them and must comply with the provisions of this Act. This includes filing of suspicious Transactions Reports and complying with any directives, circulars, guidelines with regard to KYC/CDD/Anti-Money Laundering/Terrorist Financing, issued by the Federal Government. This also means that brokers have to provide information concerning their customers and their transactions to the Stock Exchange, Financial Monitoring Unit and the SECP.