



**KNOW YOUR CUSTOMER & CUSTOMER DUE DILIGENCE**  
**KYC/CDD POLICY**

**2015**

# Director's Responsibility Statement

**Royal Securities (Pvt) Ltd.** has designed a Know Your Client/ Customer Due Diligence Policy, referred as the KYC/CDD Policy in accordance with the guidelines provided by the Exchange.

This policy defines different categories of customers and their identification on the basis of their risk assessment. It also helps identify circumstances where Enhanced or Simplified Customer Due Diligence is required.

While developing the KYC and CDD policies and framework, International best practices, recommendations from the relevant bodies such as Financial Action task Force (FATF) must be taken into account.

**Effective Date** : 01<sup>st</sup> July, 2015

**Approved By** : \_\_\_\_\_  
**Rizwan Riaz** (Company Secretary)

**Approved By** : \_\_\_\_\_  
**Imran Khan** (C.E.O)

**Approved By** : \_\_\_\_\_  
**Naima Atif** (Director)

## INTRODUCTION

This document details the Know Your Customer/Customer Due Diligence (KYC/CDD) guidelines and Anti-Money Laundering guidelines to be followed by **Royal Securities (Pvt) Ltd**. Effective from 1st July, 2015. This policy will be reviewed annually or on the basis of any material change in the regulatory requirements or business operations of the Company.

The said policy & measures will enable **Royal Securities (Pvt) Ltd** to know and understand its customers and their financial dealings better which in turn will help it manage risks prudently. The policy and measures will further help in preventing the company being used, intentionally or unintentionally by unscrupulous and criminal elements for money laundering activities.

### Following are key elements of the policy:

- a. Customer Identification Procedures;
- b. Risk assessment of customer
- c. Enhanced Due Diligence.
- d. Ongoing Due Diligence.
- e. Simplified Due Diligence.
- f. Compliance.
- g. Data Retention.
- h. Training & Employee Screening

## **1. Customer Identification Procedure:**

Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information while establishing a relationship. The Company will obtain relevant documents to prove the applicants identity, place of residence, age etc which are necessary to establish identity and contactibility of each new customer.

As per the internal classification, for low and medium risk customers, the company will, either through its own officers carry out verification of originals, place of residence etc. as well as take signature verification wherever necessary. partnership firms/limited companies, the company will obtain and verify the necessary documents to prove empowerment of the individual who is the designated authority for such applicant. In addition to this, the company's officers will do a personal discussion with the customer at his residence/office in order to interact with other family / workplace members which will also help ascertain the genuineness of the prospective customer.

Company has to 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 SECP, PSX, CDC & NCCPL. Company shall demand any other document from the account opener if company believes it will help in establishing the true identity of the customer and the real controlling person behind the account. Company would not open anonymous or obviously fictitious accounts.

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

Apart from this, the following guidelines will be followed while dealing with specific clients:

### **1.1 Trust/Nominee or Fiduciary Accounts**

Company shall attempt to determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, Company will insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting,

## 1.2 Accounts of companies and firms

Company shall attempt to verify the legal status of the legal person/ entity through proper and relevant documents. Company shall attempt to verify that any person, who purports to act on behalf of the legal / juridical person/entity, is so authorized and verify the identity of that person. Because of sensitive nature of public sector (government) entities and risk of potential conflict of interest.

## 1.3 Accounts of Govt. Institutions.

Company shall make sure that account of Govt. Institutions are not opened in the name of employee(s)/official(s) any such account which 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.

## 1.4 Categorization of Customers.

When an individual or an organization/institution opens brokerage account with **Royal Securities Pvt Ltd.**, it is important to 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 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 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. will help us 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 us 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.

**1.5 Cash Transactions:** As is already the practice and part of PSX regulations, Company must follow the regulations 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 Exchange with clear reasons as to why the cash receipt was accepted by the Company.

## 1.6 Physical Presence :

Physical presence of the account opener/authorized representative is necessary at the time of opening account. In the case of non-resident/overseas customers or customers in other cities where **Royal 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 Company, confirmation from another Brokerage House 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 Assessment

For the purpose of applying the correct guidelines for identification and underwriting of potential customers, they will be broadly divided into low, medium and high risk

**Categories as follows**

**2.1 Low Risk:** For the purpose of risk categorization, individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, shall be categorized as low risk. Illustrative examples of low risk customers are –

- i. Salaried employees whose salary structures are well defined.
- ii. People belonging to government departments, Public Sector Units, Public Limited Companies, Multinational Companies etc;
- iii. Self-employed customers with proper income documents.

**2.2 Medium Risk:** Individuals or entities whose source of wealth can be established through reference checks and verification shall be categorized as medium risk. Illustrative examples of medium risk customers will be -

- i. Salaried applicants working with Private Companies or small enterprises where the income is verified with the employer;
- ii. Contractually employed applicants with variable income/unstructured income where the income is verified with the principal / primary source of income;
- iii. Self-employed customers with a sound business where we can verify with suppliers/customers as to nature and volume of transactions as well as credibility in business dealings.

**2.3 High Risk:** Individuals or entities that pose a higher than average risk to the Company will be categorized as high risk customers. This will be ascertained after looking at the customer's background, nature of business/employment, predictability of cash flows etc. Illustrative examples of high risk customers will be –

- 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

We have discussed assessment and categorization of customers as low, medium or high risk profile above. This risk assessment by company 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.

"Politically Exposed Persons" (PEPs) 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 **Royal Securities (Pvt) Ltd.** to be careful.

**Royal Securities (Pvt) Ltd.** should 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.

**Royal Securities (Pvt) Ltd.** need to assess the risk of potential money laundering/terrorism financing and the guidelines and this commentary will help in documenting such risk if company assesses that it exists.

### 3. Enhanced Due Diligence

- 3.1 Once a customer has been categorized as 'High Risk', it is necessary for Company 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) nominee director/senior management of **Royal Securities** has to approve the opening of brokerage account. In the case of 'High Risk Category' customers, it is all the more important for Royal Securities to determine the source of wealth and funds invested. It should be noted that this exercise of categorizing customers in 'Low', 'Medium' and 'High Risk' categories applies to all customers, including existing customers, Thus, once Royal Securities has carried out the above exercise, if an existing customer falls into '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 cannot be fulfilled by customer than company should 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 company is unable to fulfill the above mentioned requirements, such account should be closed and a Suspicious Transaction Report filed.
- 3.4 Similarly, brokerage account should not be opened if company 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.



## Examples of Suspicious Transactions

Examples of suspicious transactions are listed below. The list is non exhaustive and only provides examples of ways in which money may be laundered through the capital market.

### Unusual Transactions

1. Buying and selling of a security with no discernible purpose or in circumstances which appear unusual.
2. The intensity of transactions for an inactive trading account suddenly increases without plausible reason.
3. The entry of matching buys and sells in particular securities, creating an illusion of trading. Such trading does not result in a bona fide market position, and might provide 'cover' for a money launderer.
4. Unusually short period of holding securities.
5. Frequent selling of securities at significant losses.
6. Structuring transactions to evade substantial shareholding.

### Large Cash Transactions

7. The crediting of a customer's margin account using cash and by means of numerous credit slips by a customer such that the amount of each deposit is not substantial, but the total of which is substantial.
8. Depositing large cash amounts in the reporting institution's multiple bank accounts in the same day

### Transactions Incompatible with Customer's Financial Standing

9. A customer who suddenly starts making investments in large amounts when it is known to the Reporting Institution that the customer does not have the capacity to do so.
10. Transactions that cannot be matched with the investment and income levels of the customer.

### Irregular Account Movement

11. Abnormal settlement instructions including payment to apparently unconnected parties.
12. A client whose account shows active movement of funds with low level of trading transactions.

### Suspicious Behavior/Demeanor

13. A customer for whom verification of identity proves unusually difficult and who is reluctant to provide details.
14. A group of unconnected customers who share a common correspondence address.

### Suspicious Behavior/Demeanor by an Employees of the Reporting Institution

15. There may be circumstances where the money laundering may involve employees of Reporting Institution. Hence, if there is a change in the employees' characteristics e.g. Lavish lifestyles, unexpected increase in performance, etc. The Reporting Institution may want to monitor such situations.



## 4. On-Going Due Diligence

- 4.1** For Royal Securities (Pvt) Ltd. Customer Due Diligence (CDD) is not a one-time exercise at the time of account opening only. In order to guard against misuse of our good office against criminal transactions, Royal Securities 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 company 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, company 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 Company.
- 4.2** In the above context, **Royal Securities Pvt Ltd.** 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 this KYC/CDD guideline is not to make **Royal Securities Pvt Ltd.** operations unnecessarily cumbersome, but to help it guard against its services from being used for money laundering by unscrupulous elements. In this regards:

- 5.1** Allowed 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:
  - a) 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;
  - b) Public companies that are subject to regulatory disclosure requirements;
  - c) 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 have been adopted to help Company, Employees and our valued clients to understand the processes involved in KYC/CDD, more importantly a system has been developed at company to implement these guidelines. This has been helping **Royal Securities** to monitor customer transactions and report any suspicious activity in a timely manner. In order to achieve this objective two key elements have been instituted at Royal's end:
- a) Compliance Function
  - b) MIS reporting
- 6.2** In this context, Royal Securities has skilled Staff to ensure compliance would report to the Board of Directors of Company.
- 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 have to be maintained for a minimum of five years and preferably for a period of ten years, including identity of the customer(s), account files and correspondence exchanged with the customer(s).

## **8. Training.**

There will be on-going training of Royal Securities 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 our own safety, that unscrupulous elements do not become employees / agents, **Royal Securities** should 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 company own safety and reputation but the reputation of the Capital Market.

## **10. Concluding Remarks**

It should be noted that Company is bound by the requirements of Anti Money Laundering Act, 2010, as applicable and must comply with the provisions of this Act. This includes filing of suspicious Transactions Reports and complying with any directives, circulars, and guidelines with regard to KYC/CDD/Anti-Money Laundering/Terrorist Financing, issued by the Federal Government. This also means that Company has to provide information concerning its customers and its transactions to the Stock Exchange, Financial Monitoring Unit and the SECP.

**KNOW YOUR CLIENT (KYC) APPLICATION FORM**

FOR INDIVIDUALS



Please affix your recent  
passport size photograph  
and sign across it.

➤ IDENTITY DETAILS	
1. NAME OF THE APPLICANT :	
2. FATHER'S/SPOUSE NAME :	
3.a GENDER :	b. MARITAL STATUS
c. DATE OF BIRTH :	
4.a. NATIONALITY	b. STATUS
5.a. CNIC #	b. UIN # (IF ANY)
6. Specify the proof of identity submitted	