

ANNEXURES

TO

POLICY AND PROCEDURES

***ANTI-MONEY LAUNDERING AND
COUNTERING TERRORIST FINANCING***

AAA SECURITIES(PRIVATE) LIMITED


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A. LIST OF ANNEXURES

No.	Related Annexures
1	AML/ CFT Risk Assessment
2	AML/ CFT Compliance Assessment
3	Risk Based Assessment
4	ML/TF Warning Signs/ Red Flags
5	Identification and Verification of Customer

B. ANNEXURE 1: AML/CFT RISK ASSESSMENT

S. No	Work Paper	Attachment
1	AML/CFT Risk Assessment	 ANX 1 - AML CFT RISK ASSESSMENT.xls

C. ANNEXURE 2: AML/CFT COMPLIANCE ASSESSMENT

S. No	Work Paper	Attachment
1	AML/CFT Compliance Assessment	 ANX 2 - AML CFT Compliance Assessm

D. ANNEXURE 3: RISK BASED ASSESSMENT

The Company has updated its Risk Based Assessment (“RBA”) document in light of the AML Act, AML Regulations 2020, Notices and Directives of SECP and PSX, the awareness sessions organized and conducted by the front line Regulator and Apex Regulator and in particular the National Risk Assessment 2019 (“NRA 2019”).

This document addresses the national assessment and overview of the national setting for ML/TF threats and vulnerabilities 2) ML threats 3) TF threats 4) and the Securities Sector vulnerabilities.

Accordingly, the document in turn allows the Company to gauge the risks of ML/TF associated with Securities Sector and its aspects covering geography, delivery channels, customers and product & Services. This further allows the Company to have risk mitigating controls in place.

1. NATIONAL ASSESSMENT AND OVERVIEW OF THE NATIONAL SETTING FOR ML/TF THREATS AND VULNERABILITIES

The inherent vulnerability assessment at national level consisted of an assessment of inherent ML/TF vulnerabilities of Pakistan as a whole (e.g., economy, geography, demographics, social and religious) and its key economic sectors and financial and non-financial products. The porous border, hostile neighborhood, high number of afghan migrants, the long coastal line, the level of poverty etc. has exposed the country to significant risk of money laundering and terrorist financing.

The inherent ML/TF vulnerabilities were evaluated for various sectors, both financial and non-financial. The inherent ML/TF vulnerabilities were identified for sectors taking into consideration their customers, products and geographical locations. The analysis of the inherent vulnerability specifically looked at the inherent risks associated to legal entities and arrangements and their formation.

The consequences of ML and TF in Pakistan are both evident and serious. The High ML and TF risks in Pakistan can adversely affect the financial and non-financial sectors and the society as a whole. Self-assessment by the private sector entities such as our company will help country in strengthening its AML/CFT Regime. The Company has therefore updated its AML policy and RBA in light of the findings of the NRA 2019 and has adopted mitigating steps in accordance with the identified ML/TF risks.

Those national characteristics that can be exploited or abused for ML/TF purposes are identified and understood in NRA 2019 with a view to enable and apply effective AML/CFT measures. In the context of Pakistan, it is important to consider the following when assessing ML/TF risks.

Geography

Pakistan’s geographical landscape and porous borders increase its vulnerability to both ML and TF, heightening in particular Pakistan’s TF risks associated to cash smuggling.

Indian, Afghani and Iranian territory has also been used in past by anti-Pakistani groups to launch anti- state covert operations inside Pakistan. This makes both eastern and western borders vulnerable for ML and TF through drug trafficking, bulk cash movements, and other illicit forms of trade.

Afghan Diaspora

Pakistan is host to approximately 1.4 million registered and 1.0 million unregistered Afghans.

These Afghan refugees have been mostly settled in Khyber Pakhtunkhwa and Balochistan for the last 40 years. Their children are educated and settled in Pakistan. Most second and third generation Afghan refugees are born in Pakistan and are culturally, economically and socially integrated. In some cases, they are also married to Pakistanis and the families are now integrated. In addition, the border areas of Khyber Pakhtunkhwa and parts of Balochistan are highly active, with fast moving populations across the border because of common history, culture, language and blood ties.

Conflict and Terror

The aftermath of 9/11 and the subsequent 'War on Terrorism' resulted in violence that cost Pakistan the lives of thousands and substantial financial and property losses. The mountainous terrain on the eastern and northern borders also provides isolated and largely hidden routes to organized international groups/organizations.

The risks maybe greatest in Balochistan, which has the longest border among Pakistan's subnational units, and is relatively arid and unpopulated compared to the rest of Pakistan. Here, militants, who are largely secular nationalists, operate. Balochistan has historically suffered from ethno-sectarian tensions and politically motivated violence, including violence from an active separatist movement. Separatist groups have targeted and killed ethnic settlers and others as part of their terror reign.

Large numbers of Afghan refugees have been encouraged to return to Afghanistan since Operation by the country. However, due to the deteriorating security situation in Afghanistan, the number of refugees electing to return has declined in 2018 due to lack of security, and other reasons. While terrorist attacks have declined in 2017 and 2018.

Demography

There are a large number of Afghan refugees and internally displaced people (IDPs). UNDP ranks Pakistan 150th out of 189 countries in its 2018 Human Development Index. The Multidimensional Poverty Index (MPI) classified nearly 39% of Pakistanis as living in multidimensional poverty. The overall figure masks significant regional variation in poverty incidence, ranging from over 70% in former FATA and Balochistan, to around 30% in Punjab and Azad Jammu and Kashmir. Pakistan has a significant poverty gap between urban (9.3%) and rural (54.6%). There are instances where the same low level of social indicators is exploited by money launderers for identity theft issues.

The population of the border areas of Khyber Pakhtunkhwa and parts of Balochistan are highly mobile, with people moving across borders because of a common history, cultural features, and blood ties. It also creates opportunities for sub-nationalists, hostile agencies, and other problem groups.

Social and Religious Norms

The concept of person to person charity, khairat, sadqa, zakat or helping orphans / widows or religious organization serving Islam stems from Pakistan socio-economic and religious culture. Donations are a principle source of funding for nearly all assessed NPOs in Pakistan create a significant risk including channels for transfer of funds particularly in the transnational context.

International reports and open source information suggests that many terrorist organizations derive their funding from licit sources such as donations through fund-raising.

Education

According to the Labour Force Survey of 2017-18, the literacy rate was 62.3% in 2017-18. Literacy rates in rural areas were at 53.3% and 76.6% in urban areas. Pakistan's public expenditure on education as a percentage of GDP was estimated at 2.4% in fiscal year 2017-18, which was the lowest in the region. Provincial governments are responsible for education services, and budget allocations and quality vary greatly across the country. Balochistan, followed by the former FATA (now part of KP) have the highest rates of non-attendance. Gender disparity is greatest in KP, followed by the former FATA.

Access to education is also affected by a poor security environment.

Economy

Pakistan has the world's 26th largest economy and seventh largest labour force. The World Bank classifies Pakistan as a lower-middle-income country.

Social Media

The Internet has changed the modes of communication due to anonymity, access to a wider range of population, remote management and relative ease of electronic payments. In Pakistan, the use of Facebook, Youtube and Twitter is significant.

Enforcement data corroborates the use of cyberspace for the purpose of propagation of extremist ideology and crowd funding. Crowd funding through social media is also a new arena of TF being exploited by banned entities and its members due to anonymity and transnational impact and its unregulated nature. It is illegal to use cyberspace to propagate extremist ideology, crowd funding and or any act thereon in furtherance of the motive. Enforcement data validates use of encrypted Person-to-Person communication apps for the purpose of illegal MVTs. Further, exaggerated/wrong reporting by social media creates frustration amongst the public at large.

2. ASSESSMENT OF ML THREATS

The assessment of ML threats (As per NRA 2019) included a review of all crimes based on the seriousness and magnitude of the crimes both domestically and internationally, the amount of potential proceeds generated, and the capacity of the criminal actors to launder proceeds (including third party launderers) and the sectors used to launder proceeds, according to ML Threat Intelligence. All the 21 offences designated predicate offences under the FATF Standards were included. The most significant ML threats identified in Pakistan are as follows;

S #	Type of Crime in Pakistan	ML Threat Rating		Domestic or Foreign ML
		2019	2017	
1	Illicit Trafficking in Narcotic Drugs and Psychotropic Substances;	H	H	Foreign
2	Corruption and Bribery (transnational risk)	H	H	Foreign
3	Smuggling; (Including in Relation to Customs and Excise Duties and Taxes);	H	H	Both
4	Tax Crimes (Related to Direct Taxes and Indirect Taxes);	H	H	Both
5	Illegal MVTs/Hawala/Hundi	H	H	Both
6	Cash Smuggling	H	--	Both
7	Terrorism, Including Terrorist Financing;	H	M	Both
8	Participation in an Organized Criminal Group and Racketeering	MH	--	Both
9	Trafficking in Human Beings and Migrant Smuggling;	MH	--	Both
10	Illicit Arms Trafficking;	MH	--	Domestic
11	Fraud and forgery;	MH	ML	Domestic
12	Kidnapping, Illegal Restraint and Hostage-Taking;	MH	M	Foreign
13	Robbery or Theft;	MH	--	Domestic
14	Extortion;	MH	M	Domestic
15	Insider Trading and Market Manipulation	MH	--	Both
16	Cyber Crime	MH	--	Both

17	Sexual Exploitation, Including Sexual Exploitation of Children;	M	--	Both
18	Illicit Trafficking in Stolen and Other Goods	M	--	Both
19	Counterfeiting Currency;	M	--	Domestic
20	Counterfeiting and Piracy of Products;	M	--	Both
21	Murder, Grievous Bodily Injury;	M	--	Domestic
22	Environmental Crime;	ML	--	Both
23	Piracy;	ML	--	Both

In all cases, proceeds laundered through third countries may round-trip back to Pakistan for integration. The channels through which laundered proceeds are routed are considered to be mostly unauthorized and illegal, namely hawala/hundi and cash couriers. Being criminal activities, these have also been rated as High threat for ML. Legal channels have also been exploited through Benami Accounts, Trade Based Money Laundering, investments in products which are vulnerable to ML like prize bonds and un-regulated sectors like Real Estate. Proceeds of crimes may take various routes in and/or out of Pakistan.

The above crimes while assessed in the context of Securities Sector helps in identifying the risk rating of the products, geography, delivery channels and customers of the sector. One such analysis is detailed below, which includes the impact of all the Risks rates as high;

S #	Type of Crime in Pakistan	ML Threat Rating	impact on sectoral assessment	
1	Illicit Trafficking in Narcotic Drugs and Psychotropic Substances;	H	Geography	foreign clients, clients from porous border/remote areas of KP and Baluchistan
2	Corruption and Bribery (transnational risk)	H	customers	PEP /HNWI
3	Smuggling; (Including in Relation to Customs and	H	customers	importers and exporters (sole proprietorship /companies) / clients from

	Excise Duties and Taxes);			porous border and remote areas of KP & Baluchistan
4	Tax Crimes (Related to Direct Taxes and Indirect Taxes);	H	customers	Lawyers and notaries
5	Illegal MVTs/Hawala/Hundi	H	Geography/customers	clients from porous border and remote areas of KP & Baluchistan /importers and exporters (sole proprietorship /companies), PEP
6	Cash Smuggling	H	Geography	clients from porous border and remote areas of KP & Baluchistan
7	Terrorism, Including Terrorist Financing;	H	customers / Geography	NPOs/NGOs/unregistered charities/ clients from porous border and remote areas of KP & Baluchistan
8	Trafficking in Human Beings and Migrant Smuggling;	MH	Geography	clients from porous border/remote areas of KP and Baluchistan
9	Illicit Arms Trafficking;	MH	Geography	clients from porous border/remote areas of KP and Baluchistan
10	Kidnapping, Illegal Restraint and Hostage-Taking;	MH	Geography	clients from porous border/remote areas of KP and Baluchistan
11	Insider Trading and Market Manipulation	MH	Geography /Customers	foreign clients/HNWIs

3. ASSESSMENT OF TF THREATS

Under the WB methodology, the assessment of the TF threats looks primarily at two main factors: the threat based on terrorism, and the threat based on the direction of financial flows, sources, and channels.

Direction of financial flows

The assessment (NRA 2019) looks at the possible directions of TF flows to determine to what extent the TF threat is primarily internal (generated domestically and used to finance domestic terrorism), external (either generated domestically and used to finance foreign terrorism, or vice

versa) or a combination of both. In some instances, the TF may simply pass through Pakistan moving from one foreign jurisdiction to another. It is essential to establish the direction of the flows as this information is needed to determine which CFT controls need to be adopted or strengthened.

Sources

The assessment also aimed at determining the source of TF. It may come from legitimate sources or from the commission of predicate offences.

Channels

In order to assess the level and magnitude of threat that certain sectors, products, or services can be exposed to, the assessment examined which channels are being used, or are suspected of being used, for TF.

Despite some improvements in recent years, Pakistan continues to face significant terrorism and TF threats. Thousands of Pakistani civilians, law enforcement and security forces personnel, and religious minorities have been targeted by various factions of TOs. The sectarian violent extremism and terrorism have also been observed at the national level.

Pakistan also faces significant external security threat since its inception, Pakistan has faced hostility on its eastern border. This phenomenon was aggravated after the War against Terrorism when the western border also got hostile. Pakistan has a highly active western border with fast moving populations across the border because of common history, cultures and blood ties. Demography, sectarian lines and presence of Afghan refugees also aggravated the situation and have given space to terrorist organizations, Hostile Intelligence Agencies (HIAs) and other anti-State elements in furtherance of their nefarious motives. This resulted in significant drug trafficking, smuggling in all kind and illegal border crossing in particular.

Owing to this geographic situation, Pakistan is facing terrorism and TF threat, emanating from terrorist organizations having footprints in Afghanistan, terrorist organizations having presence in Pakistan like TTP and operating mainly in areas adjacent to Pak-Afghan border areas. Long porous border with Iran and Afghanistan is a major cause of illegal border crossing, cash smuggling, illegal trade, drug trafficking, kidnapping for ransom, extortion and hawala business.

As for the terrorism threat, the TF threat is also domestic and external, as funds are generated both at home and in foreign jurisdictions for funding or otherwise support TOs and terrorist operations within the country. The number of assets of certain UN listed entities taken over by the Government also reflects upon the corresponding TF threat. Some terrorist groups also derive their funding and support from within other states sponsoring terrorism in Pakistan. Such funding is usually routed through Middle East, Afghanistan and some western countries. In addition, the TOs are also funded externally by Hostile Intelligence Agencies (HIAs) and other anti-state elements for the terrorist activities by the using of hawala/hundi and other methods for transfer of money via border areas and funding NPOs. After the shifting of terrorist groups to Afghanistan following Pakistan's operations, HIAs are providing logistic/financial support to the miscreants for terrorist activities inside Pakistan.

The presence of **Afghan refugees/ diaspora** in Pakistan also poses a threat from TF perspective. Afghan refugees are perfect vulnerability to exploitation, and thus a risk to serve as conduit of Transnational TF (structured Hawala, P2P Hawala and cash mules). There are a large number of cases indicating TF threat emanating from Afghanistan which includes criminal activities such as kidnapping for ransom, extortion and use of illegal MVTs for transfer of funds.

Collection of funds, as well as the provision of funds (through both formal and informal channels), including through the NPO sector, continue to present a threat for TF.

The **act of Donation** remains unquestioned however the vulnerability of donations for TF abuse cannot be ignored. The person-to-person charity coupled with strong urge not to divulge the name of the donor make it even more vulnerable. Donations have an important international dimension in the context of TF. Donations are a source of funding for almost all assessed entities of concern.

Based on this information, the TF threat assessment analyses and rates the TF threats from 41 TOs including lone wolf terrorists.

Given below is the summary position of ratings assigned to the TOs posing significant and lower TF threats:

No. of TOs	Risk	Names of Terrorist Organizations (TOs)
2	High	Daesh and TTP.
10	Medium High	AQ, JeM, JuD/ FIF, TTA, LeT, HQN, JuA, BLA, LeJ and BLF.
8	Medium	SSP, LeJ-Al-Almi, UBA, BRA, BLT, BRAS, HuA and Unknown.
21	Medium Low and Low	Jesh-ul-Islam, Lashkar-i-Islam, SMP, Lashkar-e-Balochistan, Balochistan Republican Guards, Self-radicalized (lone wolf) terrorists, Hazb-ul-Tehrir, Ahl-e-Sunnat Wal Jamat, Tehreek-e-Jafaria Pakistan, Jeay Sindh Mottahida Mahaz, Harkat-ul-Mujahideen, Tehreek - e- Taliban Swat, Al-Badar Mujahideen, Ansar-ul-Shariya, Balochistan Waja Liberation Army, Baloch Republican Party Azad, Balochistan United Army, Balochistan National Liberation Army, Balochistan Liberation United Front, Baloch Student Organization Azad, Balochistan Muslla Defa Tanzeem.

The TF threat to Pakistan remains very significant and increasing

Some NPOs also receive donations from other countries and this makes these NPOs more vulnerable to TF. The funding originated from a number of NPOs in foreign jurisdictions are being investigated.

Overall assessment

The overall TF threat was originally assessed as Medium when the TF Risk Assessment was completed in December 2018 by the Pakistan Government. However, after taking into account additional information with regards to entities of concern, the TF threat elevated to Medium-High in April, 2019. Now, the updated NRA has taken into account additional factors such as transnational TF risk analysis, a steep increase in TF investigations and prosecutions since April 2019, cases in respect of certain sources and channels and updated data concerning the eight entities of concern (EoC) and other TOs, the overall TF threat of country is assessed as High.

4. ASSESSMENT OF SECURITIES SECTOR VULNERABILITIES

Data analyzed through NRA 2019 confirms the lower threat to TF abuse posed by the securities sector. Considering that all the transactions coming to the securities markets is through banking channel and the primary focus of investors in these markets is investment in securities of the companies, the securities markets are exposed to a lower TF threat abuse. Further, LEAs and

FMU have so far not found any incident of TF having a link with the securities or commodities markets.

As of May 31, 2019, the securities sector had a total of 217 active Pakistan Stock Exchange brokers with Rs. 273.198 billion of assets and a total of 66 Active PMEX Pakistan Mercantile Exchange brokers with Rs.2.243 billion of assets under their custody, as of May 31, 2019. Market sector holds about 1.48% of the total assets held by financial market sector in Pakistan.

To assess the vulnerability of the sector, following aspects of the sector have been taken into account;

- a) Products
- b) Geography
- c) Delivery channel
- d) Customers – Legal
- e) Customers – Natural

a) PRODUCTS

There are only four active products currently offered in the Securities Market sector, such as;

- Ready Market,
- Deliverable Futures Contract,
- Margin Trading System and
- Margin Financing.

Products of the equity market can be used for potential ML/TF purposes. Equity market products could be used to layer or integrate the proceeds of crime, or to transfer value to terrorists, and are therefore vulnerable for ML/TF activities.

However, the following factors make the products less vulnerable for potential ML/TF purposes;

- Regulatory requirements of conducting CDD (at the time of the account opening and on an ongoing basis)
- Frequent inspections, audits and reviews by the front line Regulator and the apex Regulator
- All the transactions coming to the securities markets is through banking channel (with third party payments restricted) and Securities brokers are not allowed to accept cash of more than Rs 25,000 from any customer.
- Withdrawals from the trading account cannot be made in favor of third party or directly to any foreign jurisdiction.
- The securities markets as per NRA 2019 are exposed to a lower TF threat abuse. Further, LEAs and FMU have so far not found any incident of TF having a link with the securities or commodities markets.

The risks of potential ML/TF associated with the products and services is more reasonably analyzed through other factors such as utilization of new payment methods, delivery channels and jurisdiction/geographic locations of customers.

Taking into account the above factors, the aforementioned products of the securities market pose low ML/TF risk for the sector.

b) GEOGRAPHY

To assess the sector with regard to geography, assessment of the following categories are taken into account;

- Non-resident customers from 'High risk Jurisdictions' as identified by the FATF

- Non-resident customers from 'High risk Jurisdictions' as identified by FI
- Resident customers from 'High risk Jurisdictions' of Pakistan (porous border and remote areas of KP and Baluchistan)
- Non-resident customers from FATF compliant countries

Currently, 99% of branches of securities brokers are centered in Karachi, Islamabad and Lahore. Further, Branches alongside porous borders/in different provinces or business through agents/distributors belonging to porous borders pose high vulnerability for ML/TF. The border of Baluchistan and KPK has porous borders with Afghanistan and Iran, therefore are highly exposed to geographical vulnerability. These borders are used for smuggling, cash movement, illegal business and border crossing. Customers from high-risk jurisdictions may seek a business relationship with any security broker to potentially use the sector for facilitation in their motives of ML/TF. Customers from jurisdictions identified as high risk by FATF or securities brokers pose higher ML/TF risk for the sector.

There are 7,320 non-resident individual customers in Securities out of around 154,000 customers. It is unknown how much money is invested in Pakistani capital markets by these non-residents. However, due to the significant possibility that large amounts of Pakistani criminal proceeds are laundered abroad, it also seems likely that final integration could occur by bringing back such proceeds and investing them in Pakistani assets, including through capital markets. The capital market has a significant portion of foreign investments also due to its high volatility and large returns. The regulator as well as brokers have a difficult task to ensure legitimacy of the sources. In view of this, the inherent vulnerability to ML/TF in the securities sector from the foreign clients is assessed as High.

In view of the above, following risk categorization has been carried out along with risk mitigation;

GEOGRAPHY	ML/TF Risk	Risk Mitigation
non-resident customers from 'High risk Jurisdictions' as identified by the FATF	High	Client shall not be accepted by the Company
non-resident customers from 'High risk Jurisdictions' as identified by FI	High	
resident customers from 'High risk Jurisdictions' of pakistan (porous border area and remote areas of KP and balochistan)	High	Client shall be accepted only after proper enhanced CDD and approval of the higher management. If the company cannot obtain the requisite documents with regard to CDD, the customer shall not be accepted.
non-resident customers from FATF compliant countries	High	

c) DELIVERY CHANNELS

As in any country, delivery channels can increase ML risk in the securities market based on the use of wire transfers, online payment transaction, and payment through debit/credit cards, and Internet-based payment systems.

However, following factors are worth noting during assessment of the delivery channels in securities market;

- Regulatory requirements of conducting CDD (at the time of the account opening and on an ongoing basis)
- All the transactions coming to the securities markets is through banking channel (with third party payments restricted) and Securities brokers are not allowed to accept cash of more than Rs. 25,000 from any customer.
- Withdrawals from the trading account cannot be made in favor of third party or directly to any foreign jurisdiction.
- No remittance is accepted from abroad neither in foreign currency.
- The securities markets as per NRA 2019 are exposed to a lower TF threat abuse. Further, LEAs and FMU have so far not found any incident of TF having a link with the securities or commodities markets.

In view of the above, following risk categorization has been carried out along with its risk mitigation;

DELIVERY CHANNELS	ML/TF Risk	Risk Mitigation
cash based	High	Not accepted by the Company
Remittance received from abroad	High	
Remittance received in foreign currency	High	
Amount received through Domestic Banks	Low	CDD as per policy of the Company

d) CUSTOMERS - LEGAL

The total number of legal persons registered in Pakistan stand at 103,298. Overall, the corporate sector primarily comprises small size, domestic, private limited companies as far as the numbers are concerned. Most of the corporate sector is therefore seen as having in practice a relatively low level of inherent vulnerability – given its small size and a large domestic focus. The ML/TF threats however are very significant in Pakistan overall and there are cases when legal persons have been used for ML/TF.

It is internationally recognized that legal arrangements are inherently vulnerable to ML/TF. Pakistan has a system of trust law and also Waqf both of which can be abused for ML/TF.

ML/TF inherent vulnerability characteristics and assessed inherent vulnerability levels by type of legal persons is given in the below table:

Type of Legal Persons	Vulnerability Characteristics from UBO Concealment	Assessed Ratings
Public companies (including listed and unlisted Companies)	Stock exchange rules require high degree of transparency	Low
Public interest companies	Public Interest companies have the following sub categories; Listed Company Non-listed Company which is: (i) a public sector company as defined in the Act; or (ii) a public utility or similar company carrying on the business of essential public service; or (iii) holding assets in a fiduciary capacity for a broad group of outsiders, such as a bank, insurance company, securities broker/dealer, pension fund, mutual fund or investment banking entity. (iv) having such number of members holding ordinary shares as may be notified; or (v) holding assets exceeding such value as may be notified	Low
Public sector companies	Ownership and control exercised by government. This can be in either the form of Private, Public Listed, and Unlisted company.	Low
Cooperatives	No UBO. Owned by 'members'	Low
Companies limited by guarantee (s 2 (19))	Trade organizations licensed by Commerce Ministry, Director General of Trade Organizations. Also registered by SECP. Ownership is umbrella corporation with trade orgs under. Funds from govt. (not a norm) and members which may be orgs.	Medium
Private companies	More vulnerability when: 1) complex structure with chains of ownership including trusts across multiple countries; 2) use formal (contractual) or informal nominee shareholders or directors where nominator identity undisclosed; 3) use of intermediaries (also vulnerable) in company formation; 4) shelf (dormant), shell (no activity) or front companies (often in customer service sector)	High

Foreign companies	More vulnerability when: 1) complex structure with chains of ownership including trusts across multiple countries; 2) use formal (contractual) or informal nominee shareholders or directors where nominator identity undisclosed; 3) use of intermediaries (also vulnerable) in company formation; 4) could be shelf (dormant), shell (no activity) or front companies (often in customer service sector)	High
Domestic limited liability partnerships	Hybrid construct. Governing rules determined by contract with high degree of freedom in determining ownership and control among members, and exploiting nominees	High
Foreign limited liability partnerships	Hybrid construct. Governing rules determined by contract with high degree of freedom in determining ownership and control among members including foreigners, and exploiting Nominees	High
NPOs/NGOs	Explained below	High
Charities	Explained below	High
Waqf	Explained below	High
Trust	Explained below	High

NPOs

The abuse of NPOs for TF purposes continue to pose a significant threat, both domestically and externally.

Several cases analyzed, confirmed that the sector poses a significant threat of TF abuse.

NPOs can also be misused by TOs: (i) to pose as legitimate entities; (ii) to exploit legitimate entities as conduits for TF, including for the purpose of evading asset freezing measures; or (iii) to conceal or obscure the clandestine diversion of funds intended for legitimate purposes, but diverted for terrorist purposes.

Overall, a large segment of the NPO sector in Pakistan is seen as having a significant inherent vulnerability for TF. Given the significant TF threats in Pakistan, the overall TF risk is also very significant.

Charities

There are unregistered charities operating without opting for registration or licensing under any of the prevalent regulatory framework. Such customers shall not be accepted by the Company.

Waqf

Waqfs, which are a form of Islamic charitable trusts also operate in Pakistan.

e) CUSTOMERS – NATURAL

PEPs

The securities sector is inherently vulnerable to ML/TF from the PEPs. Since almost all the payments/receipts in this sector are routed through the banking channels, the proceeds of corruption can be routed through banking channels for investment/placement in the securities sector. PEPs therefore poses higher risk for the sector.

High Net worth Individuals

HNWI may have generated their wealth from multiple sources and regulated persons may not have enough information to identify and verify all sources of funds. The possibility of source of fund resulting from any predicate offence of ML is very likely making the securities sector inherently vulnerable for ML/TF. Further, It has been observed that investors specially HNWI are reluctant in providing evidence regarding source of their income relating to funds deposited by them with the brokers.

HNWIs therefore poses higher risk for the sector.

Online clients

Online clients are those clients of the company who trade on their behalf themselves and have no interaction with the traders/KAT operators of the Company. Because of no frequent interaction and coordination with the company representatives these clients may anonymous with regard to their trading pattern. Hence risk of these clients is rated High.

Designated Non-Financial Businesses and Professions (DNFBPs)

The DNFBP sector comprises real estate dealers, dealers in precious metals and stones (mostly jewelers), auditors and accountants, lawyers and notaries.

Although the DNFBP sector is largely unregulated and without any formal supervision, the TF threat of the sector appears to be, overall, relatively low.

1. Real estate dealers

Buying property is considered the safest form of investment in Pakistan, and the real estate sector remains one of the most attractive investment hotspots for both resident and non-resident Pakistanis. In the past, the real estate sector has served as a safe way to launder untaxed wealth, and as a major vehicle for laundering criminal proceeds. However, since 2014, considerable efforts have been made to determine fair market valuations for properties located in major cities across Pakistan, and the Finance Act of 2019 requires marking real estate to market for tax purposes. These actions may make the real estate sector a less attractive way to integrate untaxed wealth. The Finance Act of 2019 also prohibits cash transactions of Rupees five million or above, which may make it harder to disguise the amount of funds invested in real estate, or to disguise its origins. Also, the Benami Transactions (prohibition) Act was passed also by Parliament

in 2017 to take action against the assets/properties acquired in the name of benamidars (third parties).

Real estate dealers/sector still remain outside the effective oversight of the governmental authorities, whether federal, provincial or local. Even though the attractiveness of using real estate for ML purposes may have declined due to the aforementioned changes, the lack of any regulation of real estate agents provides space for the inherent risks in that sector.

Real estate dealers pose high inherent vulnerability due to their limited regulatory regime. Bank accounts of these DNFBPs may also serve as an avenue to hide funds of money launderers. The funds in their accounts may possibly come from some of their customers involved in criminal activities.

Accordingly, the inherent ML/TF vulnerability has been assessed as high.

2. Dealers in Precious Metals and Stones

Gold is used as investment product for long-term savings. At the same time, gold and jewelry may be used to convert, store and transfer tainted funds. In particular, high monetary value helps move large value with significantly smaller quantity of precious metals and stones compared with cash. Most of the trade of gold, precious stones and other jewelry is conducted on cash basis, which makes this sector more vulnerable to ML/TF. Large transactions are carried out on a cash basis mostly with walk-in customers.

Jewelers pose high inherent vulnerability due to their limited regulatory regime. Bank accounts of these DNFBPs may also serve as an avenue to hide funds of money launderers. The funds in their accounts may possibly come from some of their customers involved in criminal activities.

Overall, the inherent ML/TF vulnerability has been assessed as high.

3. Accountants, Auditors and Tax Advisors

The accountancy, audit and tax advisory professions comprise both regulated and unregulated professionals.

Auditors in Pakistan do not generally provide these services, which are most relevant as DNFBP:

- manage client money, securities or other assets;
- manage bank, savings or securities accounts;
- organize contributions for the creation, operation, or management of companies;
- create, operate, or manage of legal persons or arrangements, and buying and selling of business entities

ICAP is a statutory body for the regulation of the profession of accountancy in Pakistan and is primarily responsible for maintaining professional standards of excellence amongst chartered accountants.

The inherent ML/TF vulnerability for this sector is medium as the members of ICAP, ICMAP, CIMA, ACCA and ICAEW are required to comply with the code of ethics.

4. Lawyers and notaries

The involvement of lawyers in the incidences of ML/TF in Pakistan have remained insignificant. Based on the contextual factors, significance of their role in providing advice to the other sectors

and issuances of Government stamp papers the inherent ML/TF vulnerability of lawyers and notaries is medium.

Summary of ML/TF vulnerability of DNFBP is given below;

DNFBP	ML/TF Risk
Real Estate Dealers	High
Lawyers & Notaries	Medium
Dealers in precious metals and stones (n.a)	High
Auditors and accountants (591)	Medium

Other Natural customers

Summary of ML/TF vulnerability of other natural persons is given below;

Other Natural customers	ML/TF Risk
Individuals-Service /Profession	Low
Sole Proprietor Business (NW above 500k)	High
Sole Proprietor Business (NW below 500k)	Medium
Sole Proprietor Business (dormant)	Low
employees	Low
Students (Net worth Above Rs. 500k)	High
Students (Net worth Below Rs. 500k)	Low
House Hold/House wives (Net worth Above Rs. 500k)	High
House Hold/House wives (Net worth Below Rs. 500k)	Low
Retired Persons	Low
Individual-Agriculturist	Medium

5. ASSESSMENT OF SECURITIES SECTOR VULNERABILITIES

Moving forward, NRA will be regularly updated every 2 years by the government and it will continue to monitor emerging threats and vulnerabilities in the interim period. The Company will accordingly adjust its RBA, policies and activities as needed to effectively mitigate ML/TF risks. The Company will also ensure that any updates and findings from the NRA shall be incorporated in its RBA so as to ensure it reflects the risks of the sector in an adequate manner and in line with the updated information and to support its ongoing understanding of ML/TF methods.

Furthermore, the Company will ensure that such an assessment shall not be a static exercise, but should rather be on-going in light of the evolving nature of risks due to newly emerging threats and vulnerabilities. In addition, strategies to mitigate will be adjusted to meet evolving risks.

IMPORTANT NOTES AND GUIDANCE TO RBA

- a. Afghan refugees/nationals (even if have obtained Pakistani nationality) shall not be accepted by the company.
- b. The company may maintain centralized database of its RBA as per **Addendum 11**.
- c. The company shall ma
- d. The company shall ensure that the risks category assigned to the client in KYC/CDD, **Addendum 11** and the back office system match. In case of any discrepancy, the same shall be reported to the compliance officer.
- e. maintain record of transferring clients from one risk category to another risk category
- f. Client from porous border and southern Punjab includes;
 - Porous border of KP; includes all areas of KP except Peshawar city
 - Porous border of Baluchistan; includes all areas of Baluchistan except Quetta city
 - Cities of Southern Punjab; Burewala, Bhakkar, Bahawalnagar, Bahawalpur, Khanewal , Dera Ghazi Khan, Hasilpur, Layyah, Lodhran, Multan, Muzaffargarh, Rahimyar Khan, Rajanpur, Vehari, Ahmed Pur East and Mailsi.

E. ANNEXURE 4: ML/TF WARNING SIGNS/ RED FLAGS

The following are some of the **GENERAL** warning signs or “red flags” to which the Company shall be alerted. The list is not exhaustive, but includes the following:

1. Customers who are unknown to the broker and verification of identity / incorporation proves difficult;
2. Customers who wish to deal on a large scale but are completely unknown to the broker;
3. Customers who wish to invest or settle using cash;
4. Customers who use a cheque that has been drawn on an account other than their own;
5. Customers who change the settlement details at the last moment;
6. Customers who insist on entering into financial commitments that appear to be considerably beyond their means;
7. Customers who accept relatively uneconomic terms, when with a little effort they could have a much better deal;
8. Customers who have no obvious reason for using the services of the broker (e.g.: customers with distant addresses who could find the same service nearer their home base; customers whose requirements are not in the normal pattern of the service provider’s business which could be more easily serviced elsewhere);
9. Customers who refuse to explain why they wish to make an investment that has no obvious purpose;

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10. Customers who are introduced by an overseas agent based in a country noted for drug trafficking or distribution
 11. Customers who carry out large numbers of transactions with the same counterparty in small amounts of the same security, each purchased for cash and then sold in one transaction, particularly if the proceeds are also then credited to an account different from the original account;
 12. Customer trades frequently, selling at a loss
 13. Customers who constantly pay-in or deposit cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments;
 14. Customers who wish to maintain a number of trustee or customers' accounts which do not appear consistent with the type of business, including transactions which involve nominee names;
 15. Any transaction involving an undisclosed party;
 16. transfer of the benefit of an asset to an apparently unrelated third party, or assignment of such benefit as collateral; and
 17. Significant variation in the pattern of investment without reasonable or acceptable explanation
 18. Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
 19. Transactions involve penny/microcap stocks.
 20. Customer requests a securities provider to execute and/or clear a buy order and sell order for the same security or similar or correlated securities (and/or on behalf of the same beneficial owner), in close chronology.
 21. Transfers are made to the same person from different individuals or to different persons from the same individual with no reasonable explanation.
 22. Unusually large aggregate wire transfers or high volume or frequency of transactions are made with no logical or apparent reason.
 23. Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
 24. Customer conducts mirror trades.
 25. Customer closes securities transaction before maturity, absent volatile market conditions or other logical or apparent reason.
 26. Customers who are unknown to the broker and verification of identity / incorporation

The following are some of Red Flags/ indicators for identification of persons or entities suspected to be acting on behalf of or at the direction of designated/proscribed individuals or entities:-

I. The following indicators should be used to identify suspected persons:

- a. A customer appears to have conducted transactions on behalf of or at the direction of a designated/ proscribed individual.
- b. A customer is an office bearer (trustee/ member/ director/ authorized signatory etc.) of a designated/ proscribed entity.
- c. A customer is a business partner of an office bearer (trustee/ member/ director etc.) of a designated/ proscribed entity.
- d. A customer is a close family member of a designated/ proscribed individual who is also suspected to be associated with the business of the designated/ proscribed individual by way of financial or other assistance.
- e. An entity has a designated/ proscribed individual on its board or management.
- f. Unilateral sanctions listing identifies linkage/ association of a customer with a designated/ proscribed individual or entity.

- g. Media (Broadcast/ Print/ Social) news highlights customer’s involvement in providing financial or other assistance to designated/ proscribed individual or entity.
- h. Inquiry from law enforcement agency/ intelligence agency indicating linkage of a customer with designated/ proscribed individual or entity.

II. Red Flags based on behavior of an Account Holder associated with proscribed individuals or entities:

- a. A customer has provided the same residential/ office address that matches the known residential/ office address of a designated/ proscribed individual or entity
- b. A customer has provided the same personal contact number that matches the contact number provided earlier by a proscribed/ designated customer
- c. A customer depositing funds in the account of a person or entity listed in an international or foreign jurisdiction’s sanctions lists maintained in accordance with UNSC resolution 1373
- d. A customer listed in an international or foreign jurisdiction’s sanctions list maintained in accordance with UNSC resolution 1373, is depositing funds in another customer’s account.

F. ANNEXURE 5: IDENTIFICATION AND VERIFICATION OF CUSTOMER

S No.	Type of Customer	Information/Documents to be Obtained
1.	Individuals	<p>A photocopy of any one of the following valid identity documents;</p> <ul style="list-style-type: none"> (i) Computerized National Identity Card (CNIC) issued by NADRA. (ii) National Identity Card for Overseas Pakistani (NICOP/SNICOP) issued by NADRA. (iii) Form-B/Juvenile card issued by NADRA to children under the age of 18 years. (iv) Pakistan Origin Card (POC) issued by NADRA. (v) Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only). (vi) Valid Proof of Registration (POR) Card issued by NADRA (vii) Passport; having valid visa on it or any other proof of legal stay along with passport (foreign national individuals only). <p>Detailed Guidance on the type of customers and required documents is detailed in Addendum 12.</p>
1(a)	Joint Account	<ul style="list-style-type: none"> (i) A photocopy of any one of the documents mentioned at Serial No. I; (ii) In the case of joint accounts, CDD measures on all of the joint account holders shall be performed as if each of them is individual customers of the RP.

2.	Sole proprietorship	<ul style="list-style-type: none"> (i) Photocopy of identity document as per Sr. No. 1 above of the proprietor. (ii) Attested Copy of registration certificate for registered concerns. (iii) Copy of certificate or proof of membership of trade bodies etc, wherever applicable. (iv) Sales tax registration or NTN, wherever applicable (v) . (vi) Account opening requisition on business letter head. (vii) Registered/ Business address. <p>Detailed Guidance on the type of customers and required documents is detailed in Addendum 12.</p>
3.	Partnership	<ul style="list-style-type: none"> (i) Photocopies of identity documents as per Sr. No. 1 above of all the partners and authorized signatories. (ii) Attested copy of 'Partnership Deed'. (iii) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact shall be clearly mentioned on the Account Opening Form. (iv) Authority letter from all partners, in original, authorizing the person(s) to operate firm's account. (v) Registered/ Business address.
4.	Limited Companies/ Corporations	<ul style="list-style-type: none"> (i) Certified copies of: <ul style="list-style-type: none"> (a) Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account; (b) Memorandum and Articles of Association; (c) Certificate of Incorporation; (d) Certificate of Commencement of Business, wherever applicable; Certified copy of Latest 'Form-A/Form-B'. (e) Incorporate Form II in case of newly incorporated company and Form A / Form C whichever is applicable; and Form 29 in already incorporated companies (f) Photocopies of identity documents as per Sr. No. 1 above of all the directors and persons authorized to open and operate the account; (g) Photocopies of identity documents as per Sr. No. 1 above of the beneficial owners.
5.	Branch Office or	

	Liaison Office of Foreign Companies	<p>(iv) A copy of permission letter from relevant authority i-e Board of Investment.</p> <p>(v) Photocopies of valid passports of all the signatories of account.</p> <p>(iii) List of directors on company letter head or prescribed format under relevant laws/regulations.</p> <p>(vi) Certified copies of Form II about particulars of directors, Principal Officer etc. in case of newly registered branch or liaison office of a foreign company Form III about change in directors, principal officers etc. in already registered foreign companies branch or liaison office of a foreign company</p> <p>(vii) A Letter from Principal Office of the entity authorizing the person(s) to open and operate the account.</p> <p>(viii) Branch/Liaison office address.</p>
6.	Trust, Clubs, Societies and Associations etc.	<p>(i) Certified copies of: (a) Certificate of Registration/Instrument of Trust (b) By-laws/Rules & Regulations</p> <p>(ii) Resolution of the Governing Body/Board of Trustees/Executive Committee, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account.</p> <p>(iii) Photocopy of identity document as per Sr. No. 1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body.</p> <p>(iv) Registered address/ Business address where applicable.</p>

7.	NGOs/NPOs/Charities	<ul style="list-style-type: none"> (i) Certified copies of: <ul style="list-style-type: none"> (a) Registration documents/certificate (b) By-laws/Rules & Regulations (ii) Resolution Governing Body/Board of Trustees/Executive, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account. (iii) Photocopy of identity document as per Sr. No. 1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body. (iv) Any other documents as deemed necessary including its annual accounts/ financial statements or disclosures in any form which may help to ascertain the detail of its activities, sources and usage of funds in order to assess the risk profile of the prospective customer. (v) Registered address/ Business address.
8.	Agents	<ul style="list-style-type: none"> (i) Certified copy of 'Power of Attorney' or 'Agency Agreement'. (ii) Photocopy of identity document as per Sr. No. 1 above of the agent and principal. (iii) The relevant documents/papers from Sr. No. 2 to 7, if agent or the principal is not a natural person. (iv) Registered/ Business address.
9.	Executors and Administrators	<ul style="list-style-type: none"> (i) Photocopy of identity document as per Sr. No. 1 above of the Executor/Administrator. (ii) A certified copy of Letter of Administration or Probate. (iii) Registered address/ Business address.
10.	Minor Accounts	<ul style="list-style-type: none"> (i) Photocopy of Form-B, Birth Certificate or Student ID card (as appropriate). (ii) Photocopy of identity document as per Sr. No. 1 above of the guardian of the minor.

Notes:

- e. For due diligence purposes, at the minimum following information shall also be obtained and recorded on KYC (Know Your Customer)/CDD form or account opening form:
 - a. Full name as per identity document;
 - b. Father/Spouse Name as per identity document;
 - c. Mother Maiden Name;
 - d. Identity document number along with date of issuance and expiry;
 - e. Existing residential address (if different from CNIC);

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- f. Contact telephone number(s) and e-mail (as applicable);
 - g. Nationality-Resident/Non-Resident Status
 - h. FATCA/CRS Declaration wherever required;
 - i. Date of birth, place of birth;
 - j. Incorporation or registration number (as applicable);
 - k. Date of incorporation or registration of Legal Person/ Arrangement;
 - l. Registered or business address (as necessary);
 - m. Nature of business, geographies involved and expected type of counter-parties (as applicable);
 - n. Type of account/financial transaction/financial service;
 - o. Profession / Source of Earnings/ Income: Salary, Business, investment income;
 - p. Purpose and intended nature of business relationship;
 - q. Expected monthly turnover (amount and No. of transactions); and
 - r. Normal or expected modes of transactions/ Delivery Channels.
- ii. The photocopies of identity documents shall be validated through NADRA verisys or Biometric Verification. The regulated person shall retain copy of NADRA Verisys or Biometric Verification (hard or digitally) as a proof of obtaining identity from customer.
- iii. In case of a salaried person, in addition to CNIC, a copy of his salary slip or service card or certificate or letter on letter head of the employer will be obtained.
- iv. In case of expired CNIC, account may be opened on the basis of attested copies of NADRA receipt/token and expired CNIC subject to condition that regulated person shall obtain copy of obtain copy of renewed CNIC of such customer within 03 months of the opening of account.
- v. For CNICs which expire during the course of the customer's relationship, regulated person shall design/ update their systems which can generate alerts about the expiry of CNICs at least 01 month before actual date of expiry and shall continue to take reasonable measures to immediately obtain copies of renewed CNICs, whenever expired. In this regard, regulated person are also permitted to utilize NADRA Verisys reports of renewed CNICs and retain copies in lieu of valid copy of CNICs. However, obtaining copy of renewed CNIC as per existing instructions will continue to be permissible.
- vi. The condition of obtaining Board Resolution is not necessary for foreign companies/entities belonging to countries where said requirements are not enforced under their laws/regulations. However, such foreign companies will have to furnish Power of Attorney from the competent authority for establishing Business Relationship to the satisfaction of the regulated person.
- vii. The condition of obtaining photocopies of identity documents of directors of Limited Companies/Corporations is relaxed in case of Government/Semi Government entities, where regulated person should obtain photocopies of identity documents of only those directors and persons who are authorized to establish and maintain Business Relationship. However, regulated person shall validate identity information including CNIC numbers of other directors from certified copies of 'Form-A/Form-B' and 'Form 29' and verify their particulars through NADRA Verisys. The Verisys reports should be retained on record in lieu of photocopies of identity documents.
- viii. Government entities accounts shall not be opened in the personal names of a government official. Any account which is to be operated by an officer of the Federal or Provincial or Local Government in his/her official capacity, shall be opened only on production of a special resolution or authority from the concerned administrative department or ministry duly endorsed by the Ministry of Finance or Finance Department/Division of the concerned Government.

Explanation:- For the purposes of this regulation the expression "Government entities" includes a legal person owned or controlled by a Provincial or Federal Government under Federal, Provincial or local law.