



TREC Holder of “Pakistan Stock Exchange Limited”

Broker Registration Number – BRP – 169

Suit No. 204, 2nd Floor, Business & Finance Centre

Opposite State Bank Of Pakistan

I.I. Chundrigar Road

Karachi

Anti-Money Laundering & KYC Policy

Required by: Anti Money Laundering Act, 2010

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PEARL SECURITIES LIMITED

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Anti-Money Laundering & KYC Policy

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1. Introduction

In the last few years, across the world regulations have been put in place to discourage Money Laundering (“ML”) and Terrorist Financing (“TF”) activities. Furthermore, under the United Nations umbrella, several international agreements have been signed by UN member states under which the member states are bound to implement policies that prevent (“ML”) and (“TF”).

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

This policy has been developed to ensure compliance with Anti-Money Laundering rules, laws and regulations to prohibition and actively preventing activities that may facilitates money laundering and the funding of terrorist or criminal activities.

Governing Laws, Rules and Regulations

Following are the laws, rules and regulations governing Company’s Anti-Money Laundering policies and procedures:

- Anti-Money Laundering Act, 2010;
- Companies Act
- Anti-Money Laundering Rules, 2008;
- Anti-Money Laundering Regulations, 2008;
- Securities and Exchange Commission of Pakistan (Anti Money Laundering and Counter financing of Terrorism) Regulations, 2018 (AML Regulations)
- Guidelines on AML Regulations
- PSX Guideline in respect of KYC and CDD;

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2. Scope and Objective

1. Money laundering and financing of criminal activities is a very serious offense and the Company must always remain vigilant that its good office will not be used for any such activity. This is important for the growth and development of the Pearl Securities Limited.
2. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.
3. Every company is required to prevent the Commission of any fraud, offences of money laundering including predicted offences and take reasonable measures available under the applicable laws.
4. Further, the Company is bound to comply with AML laws being a financial institution as defined in Money Laundering Act. Financial institution includes any institution carrying on any one or more of the following activities namely:
 - Trading in a) money market instruments b) foreign exchange c) exchange, interest rate and index instruments; d) transferable securities and e) commodity future trading.
 - Participation in shares issued and provision of services related to such issues;
5. Generally, money laundering occurs in three stages. Cash first enters the financial system at the "placement" stage, where the cash generated from criminal activities is converted into monetary instruments, such as money orders or traveler's cheques, or deposited into accounts at financial institutions. At the "layering" stage, the funds are transferred or moved into other accounts or other financial institutions to further separate the money from its criminal origin. At the "integration" stage, the funds are reintroduced into the economy and used to purchase legitimate assets or to fund other criminal activities or legitimate businesses.
6. Terrorist financing may not involve the proceeds of criminal conduct, but rather an attempt to conceal the origin or intended use of the funds, which will be used later for criminal purposes.

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7. All employees of Pearl Securities Limited (“PSL”) are to receive a copy of the Company’s AML policy and are required to follow such policy and procedures. If an employee violates any portion of the Company’s AML policies and procedures, a meeting with the Compliance Officer will occur, with the employee given written warning of such violation. If the employee violates the AML policies and procedures for the second time, immediate termination will occur.

3. The Three Lines of Defense

The company will establish the following three lines of defense to combat ML/TF.

1. Front Office (Customer Facing Activity).
2. Compliance Function.
3. Internal Audit.

4. AML Compliance Officer Designation and Duties

The Company has designated Mr. Muhammad Shahzad Anwar as its Anti-Money Laundering Program Compliance Officer, with full responsibility for the Company’s AML program. The duties of the AML Compliance Officer will include monitoring the Company’s AML compliance, overseeing communication and training for employees. The AML Compliance Officer will also ensure that proper AML records are kept.

5. Giving AML Information to Financial Monitoring Unit (FMU)

Under Anti-money Laundering Act, 2010, (“the Act”) the Compliance Officer will submit Cash Transaction Report (CTR) if any; and / or Suspicious Transaction Report (STR) to Financial Monitoring Unit (FMU) in the manner as prescribed in relevant rules and regulations or respond to request about accounts or transactions made by the relevant authorities in respect of identity of the specified individual or organization, the account number, all identifying information provided by the account holder when the account was established, and the date and type of transaction.

6. Customer Identification and Verification Procedures

1. The concerned employee will, at a minimum;

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- Verify, to the extent reasonable and practicable, the identity including the names and addresses of customer, the beneficial owner of the account, seeking to open an account;
 - Check that a customer does not appear on any sanctions list issued by the authorities that may affect operations, such as the Al-Qaida and Taliban related entities/individuals mentioned in the UNSC Consolidated List.
2. The information that is required to be collected before opening of accounts are mentioned in our Standardized Account Opening Forms which follows the instructions given by the regulatory body of the Company i.e. PSX.
 3. No anonymous accounts or accounts in fictitious names shall be open. CSD shall take steps that the customers are who they purport themselves to be.
 4. Generally, the Company shall follow the customer identification and verification procedures dictated by the PSX.
 5. Prior to opening any account, the concerned staff member will inform the customer about the required information and the fact that these information will be subject to background check and identity verification.
 6. Standard Account Opening Forms which fell short of the required information / documents, account opening process will be initiated on provisional basis subject to the provision of required documents and follow up shall be made to complete all documentary requirements in all material respects.
 7. If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, the Company after considering the risks involved, shall suspend and consider closing any existing account.
 8. In either case, Compliance Officer will be notified so that he can determine whether we should report the situation to FMU. The Company may also refuse any account which is determined to be "high risk" by the compliance officer and for which there is any suspicion and such suspicion is not removed by the customer.

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9. Based on the risk, and to the extent reasonably practicable, the concerned employees will ensure that they believe that they know the true identity of the customers by using risk-based procedures to verify and document the accuracy of the information that is obtained from the customers.
10. Customer's identity shall be verified through documentary evidence, non-documentary evidence, or both. In light of the increased instances of identity fraud, verification may be supplemented with the use of non-documentary evidences as well. In verifying customer identity, any logical inconsistencies in the information obtained shall also be taken into account.
11. If the true identity of the customer is still in question the customer shall be notified the same and additional information to verify the customer's identity will be requested. If it cannot form a reasonable belief of the customer's true identity the Compliance Officer shall consider reporting SAR to the FMU.
12. In case of prospective customer, appropriate documents for verifying the identity of natural persons / legal entity as provided in Anti-Money Laundering Guidelines should be followed.
13. Verification of customer identity with non-documentary evidence is mandatory in the following situations:
 - a. When the customer is unable to present an unexpired identification card with a photograph or other biometric safeguard; or
 - b. When the documents presented by customer for identification verification are unfamiliar to the Company; or
 - c. When the customer and the Company do not have face-to-face contact; and
 - d. When other circumstances increase the risk that the Company will be unable to verify the identity of the customer through documentary means.
14. Under the above circumstances, the Company will use the following non-documentary methods of verifying identity:
 - a. Contact the customer after the account has been opened (although the Company cannot rely solely on customer contact as a means for verification);
 - b. Obtain financial statements from the customer (in case of a corporate customers s);

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- c. Compare information obtained from customer with information available from a reliable third-party source (such as a credit report);
- d. Check references with other financial institutions i.e. bank statements; and
- e. Any other non-documentary means deemed appropriate in the situation.

15. The concerned employee will verify the information at the time of opening of new accounts, if possible, but in most situations not later than five business days after opening of accounts.

7. Supervisory Procedures for Opening of Accounts

1. The Customer Support Department (CSD) will keep all the documents used for verification, including all identifying information provided by a customer (all times during the period such customer has business relationship with us, and for minimum of ten years after the termination of business relation with the customer), the methods used and results of verification, and the resolution of any discrepancy in the identifying information.
2. Approval by senior management before establishing business relationships with high-risk customers.
3. All high net worth individuals (HNWI) should be marked as High Risk at the time of opening of account.

Criteria for person to be included in HNWI is as under

Customer having Net Equity of 10,000,000 and above at any reporting date, and accordingly risk re-profiling of customers is required who meets this threshold.

4. Either a description or copy of any document that was used to verify identity shall be for five years after the record is made (a description must note the type of documents and any identification number contained on the document, the place of issuance and the expiration date); a description of the non-documentary verification methods or additional methods used to verify and the results for five years after the record is made.

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5. Before opening an account, and on an ongoing basis, the CSD will also check to ensure that a customer does not appear on a list provided of known or suspected terrorists or terrorist
6. Organizations issued by a Federal government agency or other authorities and to follow all federal directives issued with respect to these lists.
7. Information about customer’s occupation shall be obtained to assess sources of income to detect and deter possible money laundering and terrorist financing.
8. Depending on the nature of the account and requested transactions, the Company may refuse to complete a transaction unless verified the information has been provided, or in some instances may restrict the types of transactions or dollar amount of transactions due to pending verification.
9. In case of Trading Accounts of a Foreign National or Foreign Institution approval from respective Head of Department, CEO and Compliance Officer shall be mandatory.

8. Enhanced CDD Measures (“EDD”)

The enhanced CDD Measures should be applied where the risks of Money Laundering or Terrorist Financing are higher or in cases of unusual or suspicious activities. The following CDD measures should be applied for EDD.

1. Obtaining additional information from the customer. (e.g. volume of assets, Information available through public data bases, internet, etc).
2. Updating of regularly the identification data of customer or its beneficial owner.
3. Obtaining additional information of the source of funds specifically used for the performed transaction.
4. Obtaining additional information on the reasons for intended or performed transaction.
5. Obtaining the approval from the senior management to commence or continue the business relationship.

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6. Enhanced due diligence procedures should be applied, if the customer's trading limits exceed internally allowed trading limits of the customer based on his declared source of income. Sanctioned criteria on daily basis is given as under;

| S. No. | CUSTOMER TYPE | PROPOSED TRADING LIMITS |
|--------|-----------------------------------|--|
| 1 | Individuals | Not more than annual income (if income is disclosed with evidence) Otherwise Rs. 1,000,000 |
| 2 | Joint Accounts | Not more than annual income (if income is disclosed with evidence) Otherwise Rs. 1,500,000 |
| 3 | Company Accounts / Trust Accounts | 50% of total latest available balance sheet amount or it can be some percentage of equity. |

These limits will be assign in the System and in case of breach of said limits, a reports will be generated and sent to the concerned customer. The relationship manager will also make follow up with the his customer and will obtain the information regarding source of fund involved in the transactions beyond threshold and update the record of the same in KYC.

For the future trading, currently company has following trading limits as covered in Credit Risk Policy:

For Buying Net Equity X 4

For Short Selling Net Equity X 3

However, two categories have made for the future trading, defining trading limits:

| | |
|---------------|------------------------|
| Category – I | 20% margin requirement |
| Category – II | 30% margin requirement |

1. When the concerned staff in the Company detects any red flag, he will investigate further under the supervision of the Compliance Officer. This may include gathering additional information (in the manner that may not be categorized as tipping-off or reporting to the

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customer) internally or from independent sources, by contacting the authorities, freezing the accounts etc.

9. Politically Exposed Persons (PEPs)

The business relationship with those persons who holding important public positions should be declared as politically exposed persons (PEPs). PEPs may include the following.

1. Family members of PEPs are individuals who are related to PEP either directly or through marriage or similar forms of partnership.
2. Close associates to PEPs

An extra vigilance should be required in business relations with PEPs and for establishing business relationship with PEPs a special approval from the senior management will be required.

10. Monitoring Accounts For Suspicious Activity

2. Operations Department shall identify suspicious transactions for identification of patterns of unusual size, volume, pattern or type of transactions etc. Transactions, including deposits and wire transfers, in the context of other account activity to determine if a transaction lacks financial sense or is suspicious because it is an unusual transaction for that customer.
3. Customer Risk profiling & revision of risk profiling (if any) every 12-18 months atleast for High risk profile customers and performance of CDD for all those high risk customers.
4. Such transactions shall be reported to the Compliance Officer or his or her designee who will be responsible for monitoring, and will document when and how it is carried out, and will report suspicious activities to the appropriate authorities.
5. AML Compliance Officer will conduct an appropriate investigation before filing such report to the FMU keeping in mind that investigation shall not be in the manner that may be categorized as tipping-off to the customer.

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11. Red Flags

Red flags that signal possible money laundering or terrorist financing may include, but are not limited to:

- i. Customers who are unknown to the broker and verification of identity / incorporation proves difficult;
- ii. Customers who wish to deal on a large scale but are completely unknown to the broker;
- iii. Customers who wish to invest or settle using cash;
- iv. Customers who use a cheque that has been drawn on an account other than their own;
- v. Customers who change the settlement dates at the last moment;
- vi. Customers who insist on entering into financial commitments that appear to be considerably beyond their means;
- vii. Customers who accept relatively uneconomic terms, when with a little effort they could have a much better deal;
- viii. 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 homebase; customers whose requirements are not in the normal pattern of the service provider's business which could be more easily serviced elsewhere);
- ix. Customers who refuse to explain why they wish to make an investment that has no obvious purpose;
- x. Customers who are introduced by an overseas agent based in a country noted for drug trafficking or distribution.
- xi. 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;
- xii. Customer trades frequently, selling at a loss
- xiii. Customers who constantly pay-in or deposit cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments;
- xiv. 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;
- xv. Any transaction involving an undisclosed party;
- xvi. Transfer of the benefit of an asset to an apparently unrelated third party, or assignment of such benefit as collateral; and

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- xvii. Significant variation in the pattern of investment without reasonable or acceptable explanation
- xviii. Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
- xix. Transactions involve penny/microcap stocks.
- xx. 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.
- xxi. Transfers are made to the same person from different individuals or to different persons from the same individual with no reasonable explanation.
- xxii. Unusually large aggregate wire transfers or high volume or frequency of transactions are made with no logical or apparent reason.
- xxiii. Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
- xxiv. Customer conducts mirror trades.
- xxv. Customer closes securities transaction before maturity, absent volatile market conditions or other logical or apparent reason.

12. Responding to Red Flags and Suspicious Activity

1. Conducting comprehensive KYC/CDD of the customer at the time of opening of account and tagging all red flag customers as “High risk customers” and make enhanced due diligence of these red flag customers at the time of account opening.
2. Receiving cash and cash equivalents at Company’s premises will be strictly prohibited;
3. Payments from any customer are only acceptable through proper banking channel, from customers’ own account, third party cheques will not be acceptable.
4. Funds shall not be transferred from one account to any other customers accounts in any case;
5. In case of withdrawals cheque must be issued in customer’s name and no payments shall be made to third party on behalf of the customers in any case. However, funds can be transferred in the name of the company issuing right shares, in order to purchase right shares, which must be on instructions of customers.

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6. No cash withdrawal will be allowed.

13. Suspicious Transactions Reporting

▪ Filing a Suspicious Activity Report - SAR

1. SARs for any transaction or series of transactions that are conducted, attempted by, at or through the Company involving an aggregate of at least Rs. 500,000 in funds or other assets (not limited to currency) or more which is known, suspected, or have reason to suspect shall be made if:
 - a) The transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade federal law or regulation;
 - b) The transaction is designed to evade the any requirements of the AML regulations;
 - c) The transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and we know, after examining the background, possible purpose of the transaction and other facts, of no reasonable explanation for the transaction, or
 - d) The transaction involves the use of the Company to facilitate criminal activity.
2. The Compliance Officer shall investigate the matter to his satisfaction before filing STR.

▪ Filing a Currency Transaction Report - CTR

1. CTRs are filed only for certain transactions involving "currency." "Currency" is defined as "coin and paper money of the Islamic Republic of Pakistan or of any other country" that is "customarily used and accepted as a medium of exchange in the country of issuance."
2. Receipt of currency from the customer is strictly prohibited and the Company has implemented the procedures to prevent its receipt therefore, no CTR will be required to be filed.

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14. AML Record Keeping

▪ SAR Maintenance and Confidentiality

1. SARs filed (if any) and any supporting documentation shall be kept confidential by the Compliance Officer.
2. No information shall be passed on to anyone outside of law enforcement or regulatory agency and / or securities regulators about SAR.
3. Disclosure prohibition shall not limited to the person involved in the transaction that is the subject to the SAR, but rather applies to all persons except as specifically authorized by regulations. For example, the Company may reveal the existence of the SAR with certain affiliates such as a parent company provided the affiliate is subject to SAR regulation. Since the affiliate may not reveal the existence of that SAR with an affiliate of its own, the Company has policies and procedures in place to ensure that the affiliate protects the confidentiality of the SAR. The Company will obtain assurance that the affiliate has appropriate AML policies to maintain the confidentiality of such information.
4. The Company will limit access of information to a “need to know” basis, and restrict areas for reviewing SARs and maintain a log of access to SARs, as well as highlight the confidentiality concerns before a person may access information to SARs.
5. Request for any information regarding SAR’s should be handled only by the Company’s AML compliance officer. The compliance officer is responsible for verifying the request comes from an appropriate law enforcement or enforcement agency and the request should come in form of E-mail or written format so the compliance officer can verify the authenticity of such request by replying to the e-mail or checking the authenticity of the address and calling the person making such request.

▪ Responsibility for AML Records and SAR Filing

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

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

▪ Records Required

1. As part of our AML program, the Company will create and maintain SARs & CTRs and relevant documentation on customer identity and verification, and funds transfers and transmittals as well as any records related to customers required by the implemented AML rules and regulations.
2. The Company shall maintain SARs and their accompanying documentation for at least five years from the date of creation or the date the customer closes his account, if later. Other documents will be kept according to the requirements of existing rules and regulations.

15. Training Programs

1. The Company will arrange training on AML by AML certified personnel every year.
2. All key employees of sales, operations, account maintenance department must complete training within 3 months of their hire date (for new employees). For existing employees, the training must be done on an annual basis, and will generally be done within the 4th quarter of the year.
3. Training will include, at a minimum:
 - a) how to identify red flags and signs of money laundering that arise during the course of the employees' duties;
 - b) what to do once the risk is identified; what employees' roles are in the Company's compliance efforts and how to perform them;
 - c) the Company's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the AML Act, rules and regulations.
4. Records shall be kept to show the persons trained the dates, and the subject matter of their training.

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16. Program to Test AML Program

1. Subject to availability of budget, the Company may hire an independent third party, qualified to provide an independent audit of AML policies and procedures, and the compliance with said procedures.
2. The Company may perform written follow-up to ensure that any deficiencies noted during its annual review are addressed and corrected.
3. The Company shall perform periodic review of the adequacy of customer information obtained in respect of customers and beneficial owners and ensure that the information is kept up to date, particularly for higher risk categories.
4. Review period and procedures will be decided by AML Compliance officer in the manner deemed appropriate and effective in the prevailing circumstances.

17. Monitoring Employees, Employee Conduct, and Accounts

1. The Company’s HR Department will conduct a background check, including a check of any criminal records, on all new employees hired by the Company.
2. Any suspicious or questionable background information will be discussed with the Company’s CEO and Compliance Officer prior to making any final employment decision.
3. Employee’s trading accounts will be subject to the same AML procedures as customer accounts, under the supervision of the AML Compliance Officer.
4. Employees are strictly prohibited to disclose the fact to the customer or any other that a STR or related information is being or has been reported to any authority, except if required by law.

18. Confidential Reporting of AML Non-Compliance

Employees will report any violations of the Company’s AML compliance program to the AML Compliance Officer, unless the violations implicate the Compliance Officer, in which case the

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employee shall report to the CEO. Such reports will be confidential, and the employee will suffer no retaliation for making them.

19. Confidentiality

This Policy is strictly confidential. No copies of this Policy may be printed, copied or in any way removed from the offices of the Company except under approval of relevant head of department for the official reasons to be recorded in writing.

20. Future Amendments

The management will review and may amend or otherwise modify this Policy Statement from time to time with the approval of Board of Directors of the Company. Such review will preferably be carried out every year and will take into account among others the revisions in applicable regulatory framework specifically.

21. Review of periodic reports by the Board of Directors.

The periodic reports compiled by compliance department will be reviewed by the Board of Directors semi annually.

22. Approval from Board of Directors

This policy has been approved by the Board of Directors on _____ and access has been provided to the relevant employees of PSL.

23. Effective Date

This policy shall become effective from the _____.

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