



Customer Due Diligence/ Know Your Customer (CDD/ KYC) Policy

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This document deals with the board approved policy regarding Know Your Client and Customer Due Diligence in light of regulatory requirements and international best practices.

Falki Capital Private Limited
1/12/2015

Customer Due Diligence/ Know Your Customer (CDD/ KYC) Policy

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Customer Due Diligence/ Know Your Customer (CDD/ KYC) Policy

1 Introduction

- Falki Capital Private Limited has formulated a Customer Due Diligence/ Know Your Customer policy, referred here as “CDD/ KYC policy”, based on the criteria/ guidelines specified in the Securities & Exchange Commission of Pakistan (SECP) Circular No. 12 of 2009 dated April 28, 2009.
- The CDD/ KYC policy has been approved by the Board of Falki Capital Private Limited in the meeting held on January 11, 2015. In the said meeting, the Board has authorized the CEO to approve any subsequent amendments or modifications associated with this policy.
- This policy defines different types of customers, their minimum required information & documents along with the characteristics of High Risk Customers, who pose greater than average risk of money laundering activities. It further explains how to ensure the identity of the clients, who initiates relationship with Falki Capital and how to maintain and update the CDD/ KYC measures for existing customers.
- For better services to our customers, Falki Capital has also developed and put in place a “KYC Form” which classifies the categories of CDD/ KYC for both Individual and Institutional clients. Falki Capital employees are required to ensure that the customer’s information (including Joint Account holders) shall be submitted to the Operations Department by duly submitting a KYC Form.
- The KYC Form is attached as Appendix I and shall be considered as integral part of CDD/ KYC policy.

2 Scope

- The scope of CDD/ KYC policy is to establish reasonable measures to know about the customers of Falki Capital, whether individual or institutional, in accordance with the stated guidelines by the Commission.
- The scope of the policy is concerned with the staff of Falki Capital and training with respect to CDD/ KYC to the concerned staff shall be carried out on regular basis.

3 Type of Customers, Information & Documents Required

Falki Capital shall obtain the minimum information/ set of documents from various types of customers, detail of which are as follows;

(3.a) Individuals

Information Required

- Name and Father’s Name
- Address
- Telephone Number(s)
- Sources of Income
- Nationality
- Guardian name (if Applicable)

Documents Required

- Copy of CNIC or passport or attested copy of B form in case of Minor
- Detail of Business / Employment Proof
- Zakat Exemption Certificate (If Applicable)
- Guardian Certificate (If Applicable)

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(3.b) Partnership based entity

Information Required

- Name of Partnership Entity
- Names of Partners
- Father's Name of Partners
- Address of Partnership entity
- Telephone Number(s)

Documents Required

- Copy of CNIC/ passport of all Partners
- Copy of CNIC of authorized signatories
- List of Authorized signatories along with power of attorney
- Resolution authorizing investments
- Copy of latest financials of partnership

(3.c) Companies (Institutional and Corporate)

Information Required

- Name of Company and its Directors
- Registered Address
- Telephone number(s)
- Contact persons
- Registered number & NTN

Documents Required

- Copy of CNIC/ passport of all Directors
- Audited Accounts of the company
- Memorandum and Article of Association
- Board Resolution authorizing investments
- Certificate of Incorporation/ Commencement of Business
- List of Authorized Signatories along with copy of CNICs and power attorney

(3.d) Trusts including, but not limited to, Provident Fund, Gratuity Fund, Pension Fund, mutual fund, etc.)

Information Required

- Name of trust, Fund etc
- Name of Trustee
- Address of Trust/ Fund etc.
- Telephone number(s)
- Contact persons

Documents Required

- Copy of CNIC of all Trustees
- Certified copy of Trust Deed
- Trustee / Governing body Resolution for investment
- Copy of the latest financials of the Trust
- List of Authorized Signatories along with copy of CNICs and power attorney

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(3.e) Government Entities

Information Required

- Name of Government owned organization
- Address of Government owned organization
- Telephone numbers
- Contact persons

Documents Required

- A Special Resolution/ authority endorsed by the Ministry of Finance or Finance Department from concerned Government (Federal/ Provincial/ Local) clearly listing the persons/ officers authorized to operate such account
- List of Authorized Signatories
- Copy of CNIC of authorized officer(s)
- Resolution authorizing investment

4 Principles of CDD/ KYC

Falki Capital Private Limited has structured few principles for the effective implementation of KYC policy. These principles shall be applicable to all the existing and new customers, details of which are as follows;

(4.a) Payment in cash or bearer instruments shall be strictly prohibited and discouraged especially in case of account opening;

(4.b) Third party cheques shall be strictly prohibited;

(4.c) Any account which has zero balance for a period of more than one year will be considered as “Dormant Account” and only after necessary CDD/ KYC verifications, the Customer is allowed to start trading through his account;

(4.d) Government account shall not be opened in the personal names of the Government Official(s);

(4.e) CDD/ KYC measures shall be enhanced for High Risk Customers. Characteristics of High Risk Customers are given in Section 7 of this policy;

(4.f) Dealing with any Political Exposed Person or customers holding public or high profile position, relationship with them should be established and/ or maintained with the approval of Senior Management of Falki Capital Private Limited including if any existing customer becomes holder of any public office or high profile position;

(4.g) For customers that are legal persons or for legal arrangements, Falki Capital is required to take reasonable measures to understand (i) the ownership and control structure of the company (ii) determine that who own or control the company. This includes those persons who exercise ultimate effective control over a company and have beneficial ownership of the company;

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(4.h) In case Falki Capital is not able to satisfactorily complete the required CDD/ KYC measures, account should not be opened, business relationship should not be established and business transaction should not be carried out. Instead reporting of suspicious transaction is considered. Similarly, relationship with existing customer should be terminated and reporting of suspicious transactions be considered if CDD/ KYC is found unsatisfactory;

(4.i) Any exception (including suspicious transaction) identified in fulfilling the criteria/ guidelines laid down in this policy shall be clearly indicated in writing and referred to the Chief Executive Officer (CEO) in order to decide future course of action; and

(4.j) A copy of any exception (including suspicious transaction) reporting to CEO shall also be submitted to Internal Audit & Compliance Department.

5 Verification

Verification is an integral part of CDD/ KYC measures for which Falki Capital is required to ensure the following areas;

(5.a) Before opening an account, Falki Capital shall verify the copy of CNIC from the original CNIC of the prospective customer. All CNIC copies should be preferably attested by the client;

(5.b) Copies of employment documents should also be verified with the original documents;

(5.c) Personal cheque should be obtained having the same name as appearing on CNIC. In case of personal cheque from some other person's bank account, written request from the other person should be taken and economic beneficial relationship should be established. It can be accepted as one time transaction but cannot be treated as normal practice;

(5.d) In case of online money transfer from the customer, copy of the original receipt should be obtained. It can be accepted as one time transaction but cannot be treated as normal practice;

(5.e) In case of physical shares, account should only be open in the name of the person who is owner of physical shares. Joint accounts should be discouraged in such cases.

6 Risk Assessment

Falki Capital will perform customers risk assessment through Customers Due Diligence/ Know Your Client and will asses upon certain parameters like:

- **Identity Verification**
- **Occupation/ Source of Income**
- **Geography**

Pakistan has enacted the ANTI-MONEY LAUNDERING ACT (AMLA) 2010 and financial institutions and intermediaries must comply with the provisions of this Act. Risk-sensitive AML policies and processes placed by Falki Capital should enable us to identify and focus on those customer

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relationships that pose high risk of money laundering. These policies and processes should have the clear support of senior management and communicated to relevant staff and implemented effectively.

It is essential for Falki Capital to update her AML policies and procedures regularly to take account of new operational, legal and regulatory developments through KYC/CDD to minimize of the emerging risks. It is equally important that these policies and procedures are implemented effectively.

WHAT IS THE PURPOSE OF A RISK ASSESSMENT?

The key purpose of money laundering risk assessment is to drive improvements in financial crime risk management through identifying the general and specific money laundering risks. It is important to determine that how these risks should be mitigated through AML program controls and establishing the residual risk that remains for our institution.

The results of a risk assessment can be used for a variety of reasons, including to:

- Identify gaps or opportunities for improvement in AML policies, procedures and processes.
- Develop risk mitigation strategies including applicable internal controls resulting into lower level of residual risk exposure.
- Ensure senior management is made aware of the key risks, control gaps and remediation efforts.

Risk Assessment and Categorization of Customers **(Low, Medium or High Risk Profile)**

To determine a customer's overall risk rating, a select list of variables should be assessed, and each one should be rated as **low, medium or high risk**.

- **Identification of Specific Risk Categories**

The first step of the risk assessment process is to identify specific customers, entities and geographical locations.

- **Detailed Analysis**

The second step of the risk assessment process entails a more detailed analysis of the data obtained during the identification stage in order to more accurately assess AML risk. This step involves valuating data pertaining to the Falki Capital brokerage house.

- **High-risk customers, including politically exposed persons (PEP)**

Falki Capital will conduct enhanced due diligence (EDD) and enhanced ongoing monitoring if the client is assessed as high-risk customer. Situations that present a higher money-laundering risk might include but are not restricted to;

(6.a) Customers linked to higher-risk countries or business sectors.

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- (6.b) Customers who have unnecessarily complex or opaque beneficial ownership structures.
- (6.c) Transactions that are unusual, lack an obvious economic or lawful purpose, are complex or large or might lend themselves to anonymity.
- (6.d) Non-resident customers.
- (6.e) Legal persons or arrangements including non-governmental organizations; (NGOs)/ not-for-profit organizations (NPOs) and trusts / charities.
- (6.f) Customers belonging to countries where CDD/KYC and antimoney laundering regulations are lax or if funds originate or go to those countries.
- (6.g) Customers whose business or activities present a higher risk of money laundering such as cash based business.
- (6.h) Customers with links to offshore tax havens.
- (6.i) High net worth customers with no clearly identifiable source of income.
- (6.j) There is reason to believe that the customer has been refused brokerage services by another brokerage house.
- (6.k) Non-face-to face / on-line customers.
- (6.l) Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations.
- (6.m) Customer's name is identified on a restricted persons list (i.e., OFAC's SDN List)
- (6.n) Politically Exposed Persons (PEPs) or customers holding public or high profile positions.

Politically exposed persons (PEPs) are individuals whose prominent position in public life may make them vulnerable to corruption or insider trading. The definition extends to immediate family members and known close associates.

List of High Risk Countries is announced by FATF and delivered in Public Statement in Paris, 19 February 2016 –

The Financial Action Task Force (FATF) is the global standard setting body for anti-money laundering and combating the financing of terrorism (AML). In order to protect the international financial system from money laundering and financing of terrorism risks and to encourage greater compliance with the AML standards, the FATF identified jurisdictions that have strategic deficiencies and works with them to address those deficiencies that pose a risk to the international financial system. High risks countries are listed by FATF in 2016 are as follows.

Afghanistan
Iran
Laos
Syria
Yemen

Bosnia and Herzegovina
Guyana
Myanmar
Uganda

North Korea
Iraq
Papua New Guinea
Vanuatu

For Low Risk Customers, Falki Capital may apply simplified or reduced CDD/ KYC measures. A client may be considered under Low Risk category, if the identity of the customer(s) and the beneficial owner of a customer are publicly known or where adequate checks and controls exist.

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7 Enhanced Due Diligence

Across the financial industry, whenever a customer has been identified as posing a higher money laundering risk, the customer is normally escalated to the AML Compliance Officer or Team responsible for conducting enhanced due diligence, so a more extensive verification or monitoring can be performed.

Falki Capital will follow the FATF standards and SECP guidelines to apply Enhanced due diligence (EDD) when a customer is categorized as High Risk and will take measures like obtaining senior management approval before opening the account, increased supervision and transaction monitoring. The Enhanced Due Diligence (EDD) will depend upon the nature and severity of the risk.

Falki Capital should perform EDD in situations when a new client is deemed to pose a higher money laundering risk. Falki Capital will also perform EDD when an existing client is escalated from a low/medium risk level to a high risk status. EDD procedures should not automatically imply that high risk customers are involved in money laundering or other criminal activity but there is an increased opportunity to be involved.

Enhance Due Diligence should help to establish the source and size of wealth of High Risk customers and how they acquired the wealth. Source of wealth generally refers to the origin of the customer's entire body of wealth (i.e. total assets). EDD should help us in forecasting the anticipated future transactions that will be performed by our high risk clients and implement a detailed monitoring plan to mitigate the overall risk exposure, compliance and reputation risk.

Falki Capital should not open an account if it is unable to verify the identity of the customer or beneficial ownership of the account or if it is unclear what the purpose and intention of customer is and should consider filing an STR. If there are any such existing accounts they should be closed and filing of Suspicious Transaction Report (STR) should be considered. Transactions of HIGH RISK customers will be monitored and any unusual transactions will be reported in a SUSPICIOUS TRANSACTION REPORT (STR).

8 Ongoing Due Diligence

It is important for Falki Capital to realize that Customer Due Diligence (CDD) is not a one-time exercise at the time of account opening only and we need to keep monitoring transactions of our customers to ensure that the transactions executed in any particular account are within our understanding in terms of the customer's profile, risk category, historical pattern of the transactions and their historic funding source. Ongoing Due Diligence (OCDD) is a key element of our KYC/CDD Policy.

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Falki Capital should establish Risk based system and controls to determine whether any further KYC/CDD information should be collected in respect of our existing customers for ongoing due diligence purposes. Following producers and guidelines should be adopted when conducting OCDD.

(8.a) Customers classified as High Risk should have their customer information reviewed at least annually.

(8.b) OCDD obligations apply in relation to all customers who are required to be identified and verified.

(8.c) OCDD should include transaction monitoring.

(8.d) OCDD obligations also include keeping customer information up-to-date annually.

(8.e) The purpose of reviewing our customer's information is to reassess their risk rating. During the review process Falki Capital will want to know whether our customer's business has changed in either activity and / or expansion.

(8.f) Has our customer been subjected to adverse media?

(8.g) Is our customer now a Politically Exposed Person?

9 Simplified Due Diligence

Simplified due diligence (SDD) is the lowest level of customer due diligence that can be performed for a customer. It is appropriate where there is little opportunity or risk of our services or customer becoming involved in money laundering or terrorist financing.

There are a number of factors that Falki Capital applies to determine if a situation is low risk such as the service or product being provided or the type of customer that you are engaging with.

- Where we are satisfied that a customer, product and services fall into simplified due diligence criteria then our only requirement is to identify the customer.
- The business relationship should be continually monitored for trigger events which may create a requirement for further due diligence in future.
- Risk of money laundering or terrorist financing is lower.
- Information on the identity of the customer and the beneficial owner of a customer is publicly available.
- Adequate checks and controls exist.

Accordingly, following customers may be considered for simplified or reduced CDD:

(9.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

(9.b) Public companies that are subject to regulatory disclosure requirements

(9.c) Government administrations or enterprises

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

Often customers that are required to disclose information regarding their ownership structure and business activities or companies that are subject to the Money Laundering Regulations are seen to be a lower risk.

If at any point during the relationship with our customer additional intelligence becomes available which suggests that the customer or product may pose a higher risk than originally thought a more enhanced level of due diligence should be conducted.

10 Record Updation& Retention

CDD/ KYC should not be contemplated as a onetime exercise at the time entering into relationship with the customers. It should be viewed as an ongoing process and should encompass the followings;

(10.a) Operation Department will provide the list of discrepant/ incomplete documents to Investor relationship officer or CRO at least once every calendar year and all efforts should be made to update these records;

(10.b) Regular training of Falki Capital employees on the updation of client's information and records; and

(10.c) Maintain proper records of customer identifications and clearly indicate in writing any exception in fulfilling CDD/ KYC measures. These exceptions will be referred to the CEO to decide future course of action.

(10.d) Furthermore, Falki Capital shall keep records regarding the identification data obtain through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) account files and business correspondence for at least 5 (five) years.

11 Screening and Training Policy

Falki Capital's pre-employment screening program can minimize risk of employee theft, misappropriation, criminal activity or violence in the work place. It can also minimize negligent hiring lawsuits. Falki Capital should hire new employees or contractors for firm by giving an advertisement in the News Papers for efficient staff as required for the firm.

Once the "wrong" employee has been hired, the cost and "pain" of terminating that employee could be considerable. This can often be avoided by pre-employment screening. Falki Capital when hiring staff should take in consideration that new employee is capable to handle sensitive and confidential information and understands the importance of fair and accurate reporting.

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Screening

The AML/TF Rules require an employer to determine whether to, and how it should, screen prospective employees or an employee who is being transferred or promoted into a Risk Position. This will help Falki Capital's senior management to determine which roles are Risk Positions and then how to screen for those positions.

The relevant positions are those that would enable a person to facilitate the commissioning of money laundering (ML) or financing of terrorism (TF)

(These positions should be referred as 'Risk Positions').

Examples of Risk Positions include positions where employees have direct contact with

- a) cash,
- b) Transferring of funds,
- c) Monetary transactions or control over the recording of those transactions.

Recommendations for Falki Capital

(11.a) Identify Risk Positions.

(11.b) Determine how it will screen for those Risk Positions.

(11.c) Decide the forms of monitoring to implement. This could include auditing or spot checks, testing and email checking or video surveillance (subject to other relevant laws).

(11.d) Consider how to create a culture of compliance. This could include inserting compliance obligations in employment contracts, job descriptions or guidelines.

(11.e) Develop a training program this may include separate training for different levels of employees, depending on both the risk level of the position but also seniority.

Training

The Training Program for Falki Capital Employee's must include:

(11.f) The obligations of the reporting entity under the AML/CTF Act.

(11.g) The consequences of non-compliance.

(11.h) The types of ML and TF risks within that institution.

(11.i) The processes and procedures in place.

It is up to the Falki capital's management to decide how often to conduct the training program. For many employers though, it should consider to conduct that training upon induction and thereafter at least annually. It is recommended to prepare a employee's hand book related to KYC/CDD and this hand book should be available to all employees for their thorough understanding of KYC and CDD.