

## **BMA CAPITAL MANAGEMENT LIMITED**

### **KNOW YOUR CUSTOMER &**

### **CUSTOMER DUE DILEGENCE**

### **(KYC & CDD)**

### **POLICY**

## 1. Background

The Karachi Stock Exchange ("KSE") with the approval of the Securities & Exchange Commission of Pakistan ("SECP") issued a Notice No.KSE/N-1338 dated March 16, 2012, giving guidelines for brokers for developing effective policies on Know Your Customer ("KYC") and Customer Due Diligence ("CDD"). The need for introducing such requirement arose to combat money laundering and financing of illegal criminal activities and all the countries over the world where securities, markets and money markets are functioning, such regulations have been made pursuant to bilateral agreements among the U. N. Member Countries. Pakistan is a signatory to such agreement and is a Member of Financial Action Task Force ("FATF") and has also enacted Anti Money Laundering Act, 2010. All corporate brokers and financial institutions are required to evolve and implement KYC/CDD Policy with the approval of their respective Boards of Directors. Rule 4.18 of the KSE's Rule Book has also made this mandatory.

As mentioned above, in the case of the brokerage industry, the SECP, being its Apex regulator and KSE, being the frontline regulator of the brokerage industry in Karachi, have formulated detailed set of guidelines for brokers to help them in developing KYC and CDD Policies & procedures and implementing the same vide KSE's above-referred Notice, which is annexed to this Policy as an integral part hereof. Any changes in eth guidelines and regulatory requirements shall also become an integral part of this Policy.

All executive directors, managers, agents, traders and other officers of BMA Capital Management Limited ("BMA") who are involved in the operation affairs of BMA and in particular, those introducing or accepting new customers are required to strictly adhere to this Policy, which has been circulated to each such concerned employee of BMA, as a condition for continuity of their employment or engagement with BMA.

## 2. The KYC/CDD Policy

This Policy will help BMA to design effective and practical KYC/CDD Policies and procedures that are easy to understand, implement and monitor through the use of its department such as Account Opening, Customer Services, Compliance, Risk Management, Settlement, Human Resource etc.

### **Key areas which are covered include:**

- a. Customer Identification
- b. Risk assessment of customer
- c. Circumstances where Enhanced Due Diligence is required
- d. On-going due Diligence
- e. Circumstances where simplified Due Diligence can be adopted
- f. Compliance function
- g. Data retention

h. Training and employee screening

Apart from these areas BMA also considered International best practices, recommendations from the relevant bodies such as FATF while developing this Policy.

**3. CUSTOMER IDENTIFICATION**

- 3.1 The scope of customer identification is to determine the demographics of our customers. This would help BMA and its employees, agents and officers to protect themselves from being used by unscrupulous and/or criminal elements. The account opening department will ensure that all details on the account opening form are properly filled and possible verification of the details mentioned on the form is made through our customer services department. The key point is that we must not open anonymous or obviously fictitious accounts. Ascertainment of a customer identity and genuineness of his signature is most essential.
- 3.2 If a customer is acting on behalf of another person, then the identity of that person should be ascertained through Power of Attorney and details of the attorney on the AOF. The account opening department will reject the form if the Power of Attorney is not submitted separately on a stamp paper duly notarized by a Notary Public and witnessed by two adult male witnesses.
- 3.3 For non-individual customers (e.g. companies, pension funds, government owned entities, non-profit organizations, foreign companies/organizations) additional care has to be taken to establish the ownership and control structure of such an organization and who [i.e. person(s)] actually owns the organization and who manages it. The customer services and the trader must verify that the details of the person who represents himself as authorized signatory with powers to open and operate the brokerage account is actually authorized by the organization. Cross verification will be done by the Compliance department.
- 3.4 The compliance and account opening department must make sure and be careful that accounts of Institutions/organizations/ corporate bodies are not opened in the name of employee(s)/official(s). Because of sensitive nature of public sector (government) entities and risk of potential conflict of interest, it is critical for us and our representatives to ensure that accounts of Govt. Institutions are not opened in the individual name of any employee/official. Any such account, which is to be operated by an officer of a govt. owned entity, is to be operated by an officer of the Federal/Provincial/Local Government in his/her official capacity, shall be opened only on production of a special resolution/authority from the concerned administrative department, duly endorsed or notified by the Ministry of Finance or Finance Department of the concerned Provincial or Local Government.
- 3.5 When an individual or an organization/institution opens brokerage account with us, it is important to find out and document in broad terms what does the customer intend to do. For example, are there any specific sectors or stocks that the customer does not wish to participate in; is the customer intending to invest for short-term only or is the customer intending to invest for longer term; will investment be only in liquid scripts or any script; or any other special needs or requirements of the customer. This, along with customer's other information such as age, gender, occupation, knowledge of market, etc. will help us develop a sense of the risk taking capacity and profile of the customer and thus guide the customer in more effective manner.

At the same time, it will also help us to understand whether the customer should be classified as a low risk or a high risk customer from the KYC/CDD perspective. For example, a domestic customer working in a company with regular income would be low risk category; on the other hand, a government employee may be in a higher risk category because of the potential for conflict of interest; or a foreign organization having foreign currency sources would be in high risk category requiring more careful identification procedure and close monitoring of account operations. Likewise, in case of local individuals and corporate clients, it is essential to determine their tax status and source of income. In case of non-filers, account should not be opened.

In the above context, the trader and customer services department should carefully determine the source of funding especially if the customer is expected to receive/send funds in foreign currency and inform the risk management department accordingly so proper risk category is assigned.

- 3.6 The settlement department should ensure that all receipts/ payments above Rs.25,000/= are made through cross-cheques, bank drafts, pay-orders or other crossed banking instruments. Where any cash is accepted from a customer in an exceptional circumstance only, it has to be immediately reported to the Exchange with clear reasons as to why the cash receipt was accepted by the broker. The settlement department should not make any payments to customers via cash or by a cheque in favor of another person apart from the customer.
- 3.7 Account opening/customer services department should ensure physical presence of the account opener/authorized representative at the time of opening a brokerage account. In the case of non-resident/overseas customers or customers in other cities where the BMA does not have a branch/office, more strong identity verification procedures should be applied. These include verification by a reliable third party, reference of an existing customer of the broker, confirmation from another broker with whom the customer had an account, verification of signature by a bank and cross checking of the same over the phone or other means, etc. Furthermore, it is important when obtaining confirmation from third parties in other jurisdictions, especially foreign, that BMA considers whether that foreign jurisdiction is following the Financial Action Task Force (FATF) recommendations.

#### **4. RISK ASSESSMENT**

- 4.1 Risk assessment by risk management department has to be done on the basis of information obtained at the time of brokerage account opening and has to be updated on the basis of information obtained during the relationship and doing business with the customer. It should be based on customer's identity, nature of income, source of funding, location/domicile of customer, etc. Individuals/Customers with following factors will be categorized into HIGH RISK CATEGORY:
- i. Non-resident customers;
  - ii. Legal persons or arrangements including non-governmental organizations; NGOs/ not-for-profit organizations (NPOs) and trusts / charities;
  - iii. Customers belonging to countries where CDD/KYC and anti-money laundering regulations are lax or if funds originate or go to those countries;

- iv. Customers whose business or activities present a higher risk of money laundering such as cash based business;
  - v. Customers with links to offshore tax havens;
  - vi. High net worth customers with no clearly identifiable source of income;
  - vii. There is reason to believe that the customer has been refused brokerage services by another brokerage house;
  - viii. Non-face-to face / on-line customers;
  - ix. Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying FATF recommendations; and
  - x. Politically Exposed Persons (PEPs) or customers holding public or high profile positions
- 4.2 “Politically Exposed Persons” (**‘PEPs’**). PEP’s also fall under **HIGH RISK CATEGORY**. These generally include individuals in prominent positions such as senior politicians, senior government, judicial or military officials; senior executives of State Corporations AND their family members and close associates. These individuals present reputational risk, potential conflict of interest and possibility of mounting extra legal pressure on BMA in case of default or disputes and therefore extra caution is required when opening their brokerage account and monitoring their account activity. The above definition is not intended to cover middle ranking/junior officials in above noted categories. However, prudence requires risk management department to be careful.
- 4.3 In general, please note that compliance, risk management and settlement department should conduct a self-assessment for money laundering and terrorist financing risk, identifying and documenting the key risks presented by virtue of its business model, types of customers and geographical placement . If there is any doubt of the above mentioned acts then it should be reported immediately.
- 4.4 The bottom line is that all departments of BMA need to work hand in hand to assess the risk of potential money laundering/terrorism financing and the Guidelines.
- 5. ENHANCED DUE DILIGENCE**
- 5.1 Once a customer has been categorized as HIGH RISK by risk management department, it is necessary to have Enhanced Due Diligence (EDD) when dealing with such a customer. Activities and transactions of HIGH RISK customers should be carefully monitored and any unusual transactions should be reported in a SUSPICIOUS TRANSACTION REPORT (**STR**) by risk management department after consulting with the senior management.
- 5.2 In the above context, when dealing with high-risk customers, including PEP's nominee director/senior management of BMA has to approve the opening of brokerage account. In the case of HIGH RISK CATEGORY customers, it is all the more important for BMA to determine the source of wealth and funds invested. It should be noted that this exercise of categorizing customers in LOW, MEDIUM, HIGH RISK category applies to all customers, including existing customers, Thus, once BMA has carried out the above exercise, if an existing customer falls into the HIGH RISK

CATEGORY, the above requirements for monitoring and reporting suspicious transactions and senior management approval for continuing with the customer will also apply to such customer (s).

- 5.3 If the above requirements cannot be fulfilled by BMA then BMA should not open the brokerage account of such person(s) and if considered appropriate by the senior management, file a Suspicious Transaction Report (STR). In case an existing customer falls into HIGH RISK CATEGORY and BMA is unable to fulfill the above mentioned requirements, such account should be closed and a Suspicious Transaction Report filed.
6. Similarly, brokerage account should not be opened if account opening department is unable to verify the identity of the customer/beneficial owner of the account, or if it is unclear what the purpose and intention of customer is and should file an STR. If there are any such existing accounts they should be closed and a Suspicious Transaction Report (STR) should be filed by compliance department after consulting the senior management of BMA.

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

- 7.1 It is important for BMA and its officers, agents and employees to realize that CDD is not a one-time exercise at the time of account opening only. In order to guard against misuse of our offices against criminal transactions risk management, settlement and compliance departments along with the agents of BMA need to be vigilant at all the times, and keep monitoring transactions of our customers to ensure that the transactions executed in any particular account are within the understanding of BMA in terms of the customer's profile, risk category, historical pattern of the transactions and their historic funding source. For example, if a domestic individual customer orders a transaction that is significantly different from the average historical transaction size, the risk management department has to become alert and be satisfied that no suspicious reportable activity is taking place. Similarly, if a regular domestic customer, all of a sudden shows foreign sources of funds or substantial funds from local sources, this is likely to require further the investigation by the BMA.
- 7.2 The account opening and customer services department should keep all customer records updated and have a policy of assessing any change in customer profile on regular basis, which change should be documented and sufficient information should be Obtained regarding such change. The changes need to be attached in the customer's record at BMA.
- 7.3 Account opening forms should be completed in all respects and no blanks should be left. If any particular left blank in the printed account opening form and is filled up in ink or if there is any eraser, deletion or overwriting, the same should be authenticated with initials of the customer and BMA's authorized officer.

## **8. SIMPLIFIED DUE DELIGENCE**

The purpose of the KYC/CDD Policy is to guard BMA Capital Management Limited against our services from being used for money laundering by unscrupulous elements. In this regards:

- 8.1 It is acceptable for risk management department to apply simplified or reduced CDD measures in the following circumstances:
- a) Risk of money laundering or terrorist financing is lower
  - b) Information on the identity of the customer and the beneficial owner of a customer is publicly available
  - c) Adequate checks and controls exist
- 8.2 Accordingly, following customers may be considered for simplified or reduced CDD:
- Financial institutions which are subject to requirement to combat money laundering and terrorist financing consistent with the FATF Recommendations and are supervised for compliance with those controls
  - Public Companies that are subject to regulatory disclosure requirements
  - Government administrations or enterprises
- 8.3 When opting for simplified or reduced due diligence, the FATF guidelines in this regard must be consulted by BMA. Simplified CDD should not be followed when there is an identified risk of money laundering or terrorist financing.

## **9. COMPLIANCE FUNCTION**

- 9.1 One compliance officer should be allocated with sufficient resources to ensure that proper and timely audits are completed. The compliance and risk management department should have MIS reporting capability.
- 9.2 The person responsible for compliance should be designated and he/she should have sufficient skills and experience to effectively perform the compliance function. The individual identified to ensure compliance should report to the Board of Directors of BMA .
- 9.3 It is the responsibility of the compliance function to ensure that KYC/CDD guidelines are being complied with as well as with other regulatory requirements. This includes maintaining record of violations / non-compliance identified which has to be reported to the Board of Directors. Any such record has to be available for inspection by SECP and KSE as and when required.

## **10 DATA RETENTION**

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

**11 TRAINING**

Quarterly training of employees and agents should be conducted to ensure that they understand their duties under KYC/CDD and are able to perform those duties satisfactorily.

**12 SCREENING**

In order to ensure, our own safety, that unscrupulous elements do not become our employees/agents, Human Resources department should have appropriate screening procedures when hiring and also on an ongoing basis to ensure high standards of staff in terms of honesty, integrity, ethics and professionalism. This is important not just for the sake of BMA's own safety and reputation but the reputation of the Capital Market.

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

BMA always believes in conducting its affairs in accordance with the highest ethical and legal standards and hence no leniency would be shown in case of any remiss on part of any employee, officer or agent in adhering to this Policy in true letter and spirit which has become an implied term of employment.

Signed on this 31 day of January, 2015 pursuant to the approval of the Board by resolution dated January 31, 2015.



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**Chief Executive Officer**



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**CFO & Company Secretary**