

GPH SECURITIES (PVT) LTD

Trading Right Entitlement Certificate (TREC) Holder-PSX/262
Pakistan Stock Exchange Limited

Anti Money Laundering and Countering Financing of Terrorism **Regulations 2020: Policies and Procedures**

Overview:

Regulations have been put in place to discourage money laundering and financing of illegal/criminal activities under the United Nations Umbrella as several international agreements have been signed by U.N. member states under which member states are bound to implement policies that discourage money laundering and monitor financial transaction that are suspicious and raise concern about illegal financing.

Pakistan is a signatory to such agreement and is a member of relevant bodies such as Financial Action Task Force (FATF). Pakistan has to abide by the recommendations of FATF and other relevant bodies and implement appropriate policies and procedures to safeguard the image of the country. Not only this, but Pakistani businesses and institutions (e.g. financial institutions, importers & exporters, inventors, etc) can face difficulties in transacting business internationally with negative economic consequences for the country.

Pakistan had enacted the Anti Money Laundering Act 2010, which is now updated with the Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018. Financial institutions and intermediaries are required to comply with the provisions of this regulation. Securities and Exchange Commission of Pakistan (SECP) has provided comprehensive guidelines for Pakistan Capital market institutions regarding how to develop and implement policies and procedures that will help discourage money laundering, counter Terror financing and also allow Capital market institutions to monitor and remain alert regarding suspicious transaction and/ or parties who may be attempting to launder money.

Policy Statement:

GPH Securities (Pvt) Limited being a Regulated Person (RP) is committed to comply with Anti Money Laundering and Countering Financing of Terrorism Regulations, 2018. The company has adopted and will enforce the provisions set forth in AML/CFT Regulations in order to prevent and detect money laundering (ML) and terrorist financing (TF). To ensure all policies and procedures are adhered to; company's Management shall supervise the functioning of operations in accordance to the set guidelines:

- Appointment of a Compliance Officer who shall ensure compliance.

Humayun Shahzade



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- Require all Employees to prevent, detect and report to the Compliance Officer all potential instances money laundering or terrorist financing.
- Require all Employees to attend anti-money laundering training sessions to remain up to date with recent amendments in the regulations.

What is Money Laundering?

Money laundering involves the placement of illegally obtained money into legitimate financial systems so that monetary proceeds derived from criminal activities are transformed into funds with legal source. Money laundering can involve the proceeds of drug dealings, terrorist activities, arms dealings, bank fraud or securities fraud, among other activities.

Money laundering transactions may include:

- Advising a potential or existing client on how to structure a transaction to avoid reporting.
- Engaging in any activity intentionally or recklessly disregarding the source of the funds or the nature of the Clients transaction;
- Engaging in any activity designed to hide the nature, location, source, ownership or control of proceeds of criminal activity;
- Dealing in funds to facilitate criminal activity; or Dealing in the proceeds of criminal activity.

What Is Terrorist Financing?

Terrorist financing refers to the processing of funds to sponsors involved in or those who facilitate terrorist activity. Terrorist individuals/ groups/ organization derive income from a variety of sources, often combining both lawful and unlawful funding, and where the agents involved do not always know the illegitimate end of that income. The forms of such financing can be grouped into two types:

Financial Support - Forms of donations, community solicitation and other fundraising initiatives. Financial support may come from states and large organizations, or from individuals.

Revenue Generating Activities - Income is often derived from criminal activities such as kidnapping, extortion, smuggling or fraud. Income may also be derived from legitimate economic activities such as real estate investment. *Hajj*

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Compliance Officer and His Responsibilities:

A dedicated Compliance Officer to oversight the Compliance function will be reporting to the Board of Directors of the company. All Employees shall immediately notify the Compliance Officer if he suspects or has any reason to suspect that any potentially suspicious activity has occurred or will occur if a transaction is completed.

Responsibilities of the Compliance Officer include the following:

- Take appropriate measures to ascertain the true identity of the client before the account is opened.
- Ensure that accounts of corporate/partnership/Govt. Dept. are not opened in the name of an individual. Further, ensuring the authority letter/BOD approval for the person acting on behalf of the corporate/partnership/govt. dept.
- Endorse the SOAF after the KYC/CDD checklists have been fulfilled.
- Ensuring the total number of accounts opened and client codes are matched with account opening form on regular basis.
- Ensuring that customer(s) accounts have been closed in accordance with the brokerage house policies, laws & regulations.
- Ensuring that trading have executed in accordance with the customer(s) orders and applicable laws.
- Ensuring that Client Asset Segregation Statement (CASS), Net Capital Balance (NCB) and Liquid Capital (LC) statements have been prepared in accordance with the applicable laws and regulations and filed with the statutory authorities on timely basis.
- Ensuring that client's assets have been kept separated and not used for business operations.
- Ensuring the compliance of brokerage house policies, laws and regulations with respect to Conflict of interest, confidentiality and employees trading.
- Ensuring that employees training and awareness programs have been conducted. Further, all employees are performing their designated duties, responsibilities.
- Ensuring that customer complaints', grievances are properly and timely dealt and any regulatory compliance have been properly complied in this respect.
- Ensuring that physical cash trade is not acceptable.
- Ensuring that access to operating system(s) is restricted to authorized personnel only. Antivirus is installed and proper logs of the operating system are maintained.
- Preparing the periodical reports for the review of the BOD in compliances with laws, regulation, functions/policies of the brokerage house, pending non compliances and ensuring that BOD recommendations are properly complied with.
- Monitoring, reporting all the suspicious transactions/accounts/activities and to determine their implication and reporting thereof in compliance with the laws *AtyH*

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regulations and organizational policies with respect to these transactions/accounts/activities.

- Ensuring that all employees awareness/understanding with AML/CFT policies/procedures according to time to time changes/amendments in AML/CFT regulations and Conduct Employee trainings session in this regard.

Obligation in Establishing an Effective AML /CFT Governance and Compliance Regime

In order to effectively implement the AML/CFT policies our company is dedicated to undertake the following measures:

- Board of Directors and senior management to be engaged in the decision making on AML/CFT policies, procedures and controls.
- Establishing and maintaining an effective AML/CFT compliance culture and adequately training company's staff to identify suspicious activities.
- Establish written internal procedures, in which any identified suspicious activity discovered by the employees is highlighted to the reporting chain and corrective procedures of reporting are followed. With such procedures being periodically updated to reflect any legislative changes.
- Employees training on AML/CFT policies to be a regular activity adopted within the organization.

It is important to develop a system within the company to prevent ML and TF. Some guidelines include:

- Customer due diligence.
- All Record keeping.
- Efficient internal audits function to test the AML/CFT system.
- Screening procedures to ensure high standards when hiring employees; with continued employee-training program.

To ensure an effective **Internal Audit System** is in place, it should follow these measures:

- All procedures should be clearly specified in writing, and communicated to all employees.
- Job description for employees of their obligations is clearly communicated, in order to detect, monitor and report suspicious transactions.
- The appointed Compliance Officer (CO) must take the responsibility to oversee the effectiveness of RPs' AML/CFT systems, compliance with applicable AML/CFT legislation and provide guidance in day-to-day operations of the AML/CFT policies and procedures. He should acquire sufficient skills and experience to develop and *affix*

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maintain systems and controls, report's periodically to the Board of Directors and responds to all the information required by the SECP/Law enforcement agency.

- Competent and experienced Internal Auditor to be appointed, with the task of managing the effectiveness of company's internal control according to the AML regulatory requirements. Internal Auditor will be required to issue period reports of company's policy and controls to the Board of Directors.
- Internal Auditor responsibilities will include CDD, Record keeping, Maintaining Profiles of Clients, maintaining employee's efficiency with training and ultimately reporting suspicious transactions based on establish efficient internal controls.

The purpose of the internal audit system is to compliment the ML risk mitigation, as both AML/CFT policy and internal audit policy are correlated with the same objective of controlling ML/TF risks associated with the company. Implementation on the Internal Audit Policy is important to manage and reduce the potential ML/TF risks.

Employee Training:

All Employees are required to understand and comply with this Compliance policy and procedures, address concerns to the Compliance Officer in accordance with the AML/CFT policy. Ensuring the employees participate in the training sessions conducted by the company, SECP, PSX or other organized seminars like US Aid.

Employees Training will include:

- To get trained in how to recognize and deal with transactions which may be related to money laundering.
- To timely escalate and report the matter to the Compliance Officer.
- To get themselves acquainted with Anti Money Laundering Rules & Regulations.
- To comply with the requirements of Rules & Regulations of AML.

Monitoring AML/CFTT Systems and Controls

GPH Securities (Pvt) limited needs a system to monitor the risks, make consequent changes on evolving risk factors and establish controls to effectively mitigate the risks of ML/TF. Such measures will take into account the following risks and controls:

- **Documentation and Reporting** – Being an RP the company needs to document its relevant policies for risk mitigation, risk assessment and corrective procedures. It is not a onetime exercise and will require amendments to company's and clients risk profiles and appropriate updates to its risk policies. The company shall maintain Risk Assessment Tables (Annex 1) and AML/CFT Compliance Assessment Template (Annex 2) within the period as required by the Commission. *Haq*

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- **Record Keeping** - The records maintained by regulated person shall be sufficient to permit reconstruction of individual transactions including the nature and date of the transaction, the type and amount of currency involved and the customer involved in the transactions so as to provide, when necessary, evidence for prosecution of criminal activity. Where transactions, customers or instruments are involved in litigation or where relevant records are required by a court of law or other competent authority, the regulated person shall retain such records until such time as the litigation is resolved or until the court of law or competent authority indicates that the records no longer need to be retained.

The records of identification data obtained through CDD process including copies of identification documents, account opening forms, Know Your Customer forms, verification documents, other documents and result of any analysis along with records of account files and business correspondence, shall be maintained for a minimum period of five years after termination of the business relationship. The regulated person will maintain a list of all such customers/accounts where the business relationship was refused or needed to be closed on account of negative verification. The regulated person shall provide, upon request, from the Commission, investigating or prosecuting agency and FMU, any record within 48 hours after the request has been made or such time as may be instructed by the relevant authority.

- **New Products and Technologies** - Systems should be in place to identify and assess ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products which may include changes in trading practises, Online transactions or in case of use of any other platform for trading.

- **Customer Due Diligence** – The regulated person shall categorize each customer’s risk depending upon the outcome of the CDD process. The regulated person shall identify the customer; and verify the identity of that customer using reliable and independent documents, data and information. Where the customer is represented by an authorized agent or representative, the regulated person shall identify every person who acts on behalf of the customer, verify the identity of that person and the authority of that person to act on behalf of the customer. The company shall also identify the beneficial owner and take reasonable measures to verify the identity of the beneficial owner. For customers that are legal persons, the regulated person shall identify and take reasonable measures to verify the identity of beneficial owners by identifying the natural person(s) (if any) who ultimately has a controlling ownership interest. The management should verify the identity of the customer and beneficial owner before establishing a business relationship or during the course of establishing a business relationship.

Company shall take steps to know their customers, get rid of anonymous accounts or accounts in fictitious names and conduct continued CDD to identify and verify the beneficial owners. An ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to

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ensure that the transactions being conducted are consistent with the RP's knowledge of the customer, its business and risk profile, including, where necessary, the source of funds. Proper identification procedures for the client are mentioned in the company policies. All customers should be identified with respect to their levels of risk, and the management should adopt measures based on the risk criteria of the clients based on trading limits etc. CDD measures should be extended to existing customers on the basis of materiality and risk in their trading pattern. Management should not adopt simplified due diligence measures where the ML/TF risks are high. RP shall identify risks and have regard to the risk analysis in determining the level of due diligence. Company shall consider updating customer CDD records as a part its periodic reviews or on the occurrence of a triggering event. It is important to keep sufficient evidence in case someone is acting on behalf of the client. Although it is company policy to verify the client and obtain a written approval in case someone acts on clients behalf to ensure transparency, accuracy and customer satisfaction. All information and records of clients are required to be documented including the records of any client/ account in which business relationship was refused or any account is closed due to negative identity verification.

Triggering events include:

- (1) Material changes to the customer risk profile or changes to the way that the account usually operates;
- (2) Where it comes to the attention of the RP that it lacks sufficient or significant information on that particular customer;
- (3) Where a significant transaction takes place;
- (4) Where there is a significant change in customer documentation standards;
- (5) Significant changes in the business relationship, circumstances include: (A) New products or services being entered into, (B) A significant increase in a customer's salary being deposited, (C) The stated turnover or activity of a corporate customer increases, (D) A person has just been designated as a PEP, (E) The nature, volume or size of transactions changes.

- **Politically Exposed Persons (PEP)** – PEP's are high risk individuals and pose a higher level of riskiness in the business relationship. All domestic and Foreign PEP require attentive CDD and continuous EDD to mitigate the risk of ML/TF.

A Politically Exposed Person (PEP) is defined by the Financial Action Task Force (FATF) as an individual who is, or has been entrusted with a prominent public function. Due to their position and influence, it is recognized that many PEPs are in positions that potentially can be abused for the purpose of committing money laundering (ML) offences and related predicate offences, including corruption, bribery, and conducting activity related to terrorist financing (TF). The potential risks associated with PEPs justify the application of additional anti-money Laundering/counter I terrorist financing (AML/CFT) preventative measures with respect to business relationships with PEPs.

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Foreign PEPs

Individuals who are, or have been entrusted with prominent public functions by a foreign country, for example heads of state or government, senior politicians, senior government, judicial or military officials, senior executives of state owned corporations, important political party officials.

Domestic PEPs

Individuals who are, or have been entrusted domestically with prominent public functions, for example heads of state or of government, senior politicians, senior government judicial or military officials, senior executives of state owned corporations, important political party officials.

International organization PEPs

Persons who are, or have been entrusted with a prominent function by an international organization, refers to members of senior management or individuals who have been entrusted with equivalent functions i.e. directors, deputy directors, and members of the board or equivalent functions.

Family members

Individuals who are related to a PEP either directly (consanguinity) or through marriage or similar (civil) forms of partnership.

Close associates

Individuals who are closely connected to a PEP, either socially or professionally.

Management should be vigilant for any significant changes or inconsistencies in the pattern of transactions. Inconsistency is measured against the stated original purpose of the accounts. Possible areas to monitor could be:

- (1) Transaction type
- (2) Frequency
- (3) Amount
- (4) Geographical origin/destination
- (5) Account signatories

Ongoing Monitoring - The company shall conduct ongoing due diligence on the business relationship, including scrutinizing transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the regulated person's knowledge of the customer, their business and risk profile, including where necessary, the source of funds. Continue reviews of existing records and ensuring that documents, data or information collected for the CDD purposes is kept up-to-date and relevant, particularly for higher risk categories of customers. The customers' profiles should be revised keeping in view the CDD and basis of revision shall be documented. *Handwritten signature*

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Enhanced Due Diligence (EDD) - Company shall implement appropriate internal risk management systems, policies, procedures and controls to determine if any customer presents high risk of ML/TF. The regulated person shall apply EDD where a customer presents high risk of ML/TF including but not limited to the following circumstances: (a) business relationships and transactions with natural and legal persons when the ML/TF risks are higher; (b) business relationships and transactions with natural and legal persons from countries for which this is called for by the FATF; (c) PEPs and their close associates and family members. EDD measures include: (a) Obtaining additional information on the customer (e.g. volume of assets, information available through public databases, internet, etc.), and updating more regularly the identification data of customer and beneficial owner; (b) Obtaining additional information on the intended nature of the business relationship; (c) Obtaining information on the source of funds or source of wealth of the customer; (d) Obtaining information on the reasons for intended or performed transactions. The company shall apply, at minimum the following EDD measures: (a) obtain approval from senior management to establish or continue a business relationship where the customer or a beneficial owner is a PEP, close associate or family member of a PEP or subsequently becomes a PEP, close associate and family member of a PEP; (b) take reasonable measures to establish the source of wealth and the source of funds of customers and beneficial owners identified as a PEP, close associate or family member of a PEP; and (c) conduct enhanced ongoing monitoring of business relations with the customer or beneficial owner identified as a PEP, close associate and family member of a PEP. EDD also needed for as counter measures for high risks countries as identified by the federal government or FATF to keep the cross border risk of ML/TF in check. EDD is a priority in case of suspected High Risk Clients.

High Risk Clients – If Clients are considered to be 'High Risk' enhanced due diligence procedures are warranted compared to the routine Client Identification Procedures.

Following are the examples of Clients who pose a high ML/TF risk:

- Non-resident customers;
- Legal persons or arrangements including non-governmental organizations; (NGOs)/ not-for-profit organizations (NPOs) and trusts / charities;
- Customers belonging to countries where CDD/KYC and anti money laundering regulations are lax or if funds originate or go to those countries;
- Customers whose business or activities present a higher risk of money laundering such as cash based business;
- Customers with links to offshore tax havens;
- High net worth customers with no clearly identifiable source of income;
- There is reason to believe that the customer has been refused brokerage services by another brokerage house;
- Non-face-to face / on-line customers;
- Establishing business relationship or transactions with counterparts from or *Henry*

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- in countries not sufficiently applying FATF recommendations; and
- Politically Exposed Persons (PEPs) or customers holding public or high profile positions.
- Those Customers belonging to the Porous Borders Areas of Pakistan
- Those Customers who belonging to the High Risk Areas which define in NRA (Southern Punjab, KPK, Baluchistan)
- Those Customers who are identified as Afghan Refuges / Diaspora.
- Those Customers who are Non-Resident or Foreigners transfer their funds across the borders .
- Countries identified by credible sources as having significant levels of corruption or other criminal activity

In order to mitigate the risk of high risk client, the company can do the following EDD to safeguard its risk level:

- Obtaining additional information on the applicant/customer (e.g. occupation, volume of assets, information available through public databases, internet, etc.);
- Updating more regularly the identification data of applicant/customer and beneficial owner;
- Obtaining additional information on the intended nature of the business relationship;
- Obtaining additional information on the source of funds or source of wealth of the applicant/customer;
- Obtaining additional information on the reasons for intended or performed transactions;
- Obtaining the approval of senior management to commence or continue the business relationship

Simplified Due Diligence - The Company may apply SDD only where low risk is identified through adequate analysis through its own risk assessment and any other risk assessment publicly available. SDD measures include the following measures: (a) Verifying the identity of the customer and the beneficial owner after the establishment of the business relationship; (b) Reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold as prescribed or as set out by the Commission; (c) Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established. The regulated person shall not apply any simplified CDD whenever there is a suspicion of money laundering or terrorist financing. *Hay*

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Reliance on Third Parties - Any regulated person who relies on a third party to conduct CDD on its behalf shall remain liable for any failure. The management should immediately obtain from the Third Party the required information concerning CDD and take steps to satisfy itself that copies of identification data and other relevant documentation relating to CDD requirements will be made available from the third party upon request without delay and retain all documents of identification.

Cash Dealing – Management needs to be vigilant with the principal rule of not accepting cash of more than Rs. 25,000 without reporting the authorities. Any large cash dealing is not acceptable therefore proper banking channel instruments are recommended. Large sum of cash create and present high risk of ML/ TF.

Beneficial Ownership:

The Beneficial Owner is the natural person at the end of the chain who ultimately owns or controls the customer. The definition of BO in the Regulations is as below:

"Beneficial Owner" in relation to a customer of a regulated person means, the natural person who ultimately owns or control a customer or the natural person on whose behalf a transaction is being conducted and includes the person who exercise ultimate effective control over a person or a legal arrangement.

The management shall identify and verify the identity of the customer, and understand the nature of its business, and its ownership and control structure. The purpose of the requirements set out regarding the identification and verification of the applicant and the beneficial owner is twofold: Firstly, to prevent the unlawful use of legal persons and arrangements, by gaining a sufficient understanding of the applicant to be able to properly assess the potential ML/TF risks associated with the business relationship ;and secondly, to take appropriate steps to mitigate the risks:

1. Obtain sufficient evidence based on original documentation.
2. Continue to perform EDD for high risk clients.
3. Report STR in case of suspicion.



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Correspondent Relationship - The company shall perform the following measures when forming a correspondent relationship:

(a) Assess the suitability of the respondent financial institution by gathering adequate information about the respondent financial institution to understand fully the nature of the respondent financial institution's business, including making appropriate inquiries on its management, its major business activities and the countries or jurisdictions in which it operates. Determine from any available sources the reputation of the respondent financial institution and the quality of supervision over the respondent financial institution, including whether it has been the subject of money laundering or terrorism financing investigation or regulatory action. Assess the respondent financial institution's AML/CFT controls and ascertain that they are adequate and effective, having regard to the AML/CFT measures of the country or jurisdiction in which the respondent financial institution operates.

(b) Understand and document the respective AML/CFT responsibilities of the financial institution and the respondent financial institution.

(c) Assess the respondent financial institution in the context of sanctions/embargoes and Advisories about risk.

(d) Obtain approval from the financial institutions' senior management before providing correspondent services to a new financial institution.

Company shall pay special attention when establishing or continuing correspondent relationship with financial institutions which are located in jurisdictions that have been identified or called for by FATF for inadequate and poor AML/CFT standards in the fight against money laundering and financing of terrorism. It shall enter into or continue correspondent relationship with another financial institution that does not have adequate controls against money laundering or terrorism financing activities. Appropriate measures need to be taken when establishing a Correspondent Relationship, to satisfy itself that its respondent financial institutions do not permit their accounts to be used by shell financial institutions.

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Reporting of Suspicious Transactions/ Currency Transaction Report

Any suspicious activity will often be one that is inconsistent with a customer's known, legitimate activities or with the normal business for that type of account. Where a transaction is inconsistent in amount, origin, destination, or type with a customer's known, legitimate business or personal activities, the transaction must be considered unusual, and the RP should put "on enquiry". RPs should also pay special attention to all complex, unusual large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. Where the enquiries conducted by the RP do not provide a satisfactory explanation of the transaction, it may be concluded that there are grounds for suspicion requiring disclosure and escalate matters to the AML/CFT in charge. Enquiries regarding complex, unusual large transactions, and unusual patterns of transactions, their background, and their result should be properly documented, and made available to the relevant authorities upon request. Activities which should require further enquiry may be recognizable as falling into one or more of the following categories. This list includes:

- (1) Any unusual financial activity of the customer in the context of the customer's own usual activities;
- (2) Any unusual transaction in the course of some usual financial activity;
- (3) Any unusually-linked transactions;
- (4) Any unusual method of settlement;
- (5) Any unusual or disadvantageous early redemption of an investment product;
- (6) Any unwillingness to provide the information requested.

In accordance with the AML/CFT Regulatory requirements, any/ all suspicious transaction(s)-STR, should be recorded and the management shall report the number of STR's to the AML Department of SECP on bi-annual basis (*Revoked – Regulation is withdrawn by SECP*). In situations where the management has a suspicion of ML/TF and it needs to carry out further CDD to ensure the suspicion but it will tip-off the client, in that case it is recommended to refrain from additional CDD and report STR with SECP AML department and FMU.

Where cash transactions are being proposed by customers, and such requests are not in accordance with the customer's known reasonable practice, management will need to approach such situations with caution and make further relevant enquiries. Where the RP has been unable to satisfy that any cash transaction is reasonable that should be considered as suspicious. RP is also obligated to file Currency Transaction Report (CTR), for a cash-based transaction involving payment, receipt, or transfer of Rs. 2 million and above. vi. If the RP decides that a disclosure should be made, the law require the RP to report STR without delay to the FMU, in standard form as prescribed under AML Regulations 2008. 

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Risk Assessment and Applying a Risk Based Approach

SECP AML/CFT regulations require RP's to assess the risks and develop a Risk Based Approach (RBA) to mitigate or prevent ML/CF risks. As a part of the RBA, RPs shall:

- 1) Identify ML/TF risks relevant to the business;
- 2) Assess ML/TF risks in relation to:
 - a. Customers (including beneficial owners);
 - b. Country or geographic area in which its customers reside or operate;
 - c. Products, services and transactions that the RP offers; and
 - d. Delivery channels.
- 3) Design and implement policies, controls and procedures approved by its Board of Directors;
- 4) Monitor and evaluate the implementation of mitigating controls;
- 5) Keep their risk assessments current through ongoing reviews;

Based on the likelihood of riskiness, Low Risk, Medium Risk and High Risk, effective level of controls to be applied to reduce the level of risk posed to the operations of the company when facing possible ML/TF.

As part of the regulations, Annex-1 and Annex-2, provide a guideline for the business to assess the risk related to customers, products offered and gives a guide for establishing assessment controls. The company should also create charts/table for assessing the risks likelihood for the mentioned criteria.

Sample Risk Likelihood Table:

Criteria	Customer	Transaction	Geography
Product Type			
Product 1			
Customer Type			
Customer 1			
Delivery Channel			
Channel 1			
Geographical Type			
Area (e.g. FATA)			
Overall Risk			

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ML/TF Warning Signs / Red Flags

The company needs to establish some alerts during its operations to identify possible Red Flags for ML/TF. The guidelines provided by the SECP include:

- (1) When the customers are unknown to the broker and verification of identity proves difficult;
- (2) Customers who wish to deal on a large scale but are completely unknown;
- (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 refuse to explain why they wish to make an investment that have no obvious purpose;
- (6) Customer who trades frequently, selling at a loss
- (7) Significant variation in the pattern of investment without reasonable or acceptable explanation
- (8) Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
- (9) Large Transactions involving small stocks only.
- (10) Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
- (11) Customer conducts mirror trades.

These Steps just act as guidelines to understand when an uncertain situation arises, the management needs to be vigilant to the possibility of ML/TF.

To follow the guidelines and implement the AML/CTF policy, it is imperative to plan out and implement practically suitable training programs for employees in order to effectively implement the regulatory requirements and company's own policies and procedures relating to AML/ CFT. The employees training shall make the employees responsible and enable them to understand new information and laws related to money laundering and financing of terrorism. The employees are made to attend the AML seminars and training programs arranged by SECP, PSX and organizations like UA AID, for them to keep updated on international standards. All amendments in the AML Regulations are communicated within the organization to keep updated on changes of rules and regulations.

It is important to follow the guidelines put in place to mitigate the risk of AML/CF, therefore the management needs to ensure its compliance in alleviating all possible risks associated with Money Laundering and Terror financing. 

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Guidelines in light of the National Risk Assessment Report, 2019:

Government of Pakistan is determined to establish a strong regime for Anti Money Laundering (AML) and Combating the Financing of Terrorism (CFT). Measures have been put in place to achieve the objectives of economic development and to project the country's image as a reliable partner in the global financial and criminal justice system. These measures include a range of legal, regulatory, supervisory, and operational and enforcement measures to combat ML and TF activities in Pakistan. To combat the inherent ML/TF risks: ML/TF threats and inherent vulnerabilities of Pakistan, a number of parameters have been set for financial sectors, while taking into account the consequences of ML and TF.


GPH Securities (Pvt) Limited being a Regulated Financial Entity is fully committed to comply with the Anti Money Laundering (AML) and Countering Financing of Terrorism (CFT) Regulations, 2018. The company has adopted the regulations in shape of a comprehensive in house AML/CFT Policies & Procedures, and will continue to enforce the provisions set forth in AML/CFT Regulations to prevent and detect Money Laundering (ML) and Terrorist Financing (TF).

The recently published Pakistan National Risk Assessment (NRA) 2019 sheds more emphasises on what Pakistan is doing as a nation and how GPH Securities (Pvt) Limited being a part of the Financial eco-system of the country is required to do its part by continuing to adhere with the regulatory requirements.

Assessment of Sectoral ML/TF Threats and Vulnerability:

The assessment of ML/TF threats and vulnerabilities faced by our financial sector will be in consideration of the published NRA report. Although the brokerage house sector holds about 1.48% of the total assets held by entire financial market sector in Pakistan, but the risks associated with it cannot be ignored.

The risk assessment of inherent ML/TF threats and vulnerabilities can be effectively analyzed by breaking down the risks in the following categories:

- 1- **Products and Services:** There are only four active products currently offered in the Securities Market sector, i.e. Ready Market, Deliverable Futures Contract, Margin Trading System and Margin Financing. 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. Products and services may be categorized based on the degree of ML/TF risk associated with utilization of new payment methods, delivery channels and jurisdiction/geographic locations of customers. In Ready Market Trades Individuals, both local and foreign investors, corporate and 

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other entities place their funds with the brokers. The investors can transfer their funds by using online banking and transfer of funds through ATMs. Large amounts of money collected from these investors in the securities market cannot be completely verified due to constraints in the system, leaving it vulnerable to ML/TF risks.

GPH Securities (Pvt) Limited only offers Ready Market product and services to its clients, and to manage all the clients funds all payments are accepted through banking channels mostly cheques from the clients owned bank accounts only. All payments made to the clients are made by cheques in the name of the client only from the separately maintained client bank account that holds all the client's funds. This practise eliminates the possibility of funds being managed by anyone else other than the client himself. All payments received and made can be verified in the name of the respective client. Despite all the regulatory checks, the company is vulnerable to the threats of ML/TF as the source of funds cannot be fully verified.

Risk rating is assigned by looking at all product aspects and corresponding data periodically.

- 2- **Customers:** The securities sector is inherently vulnerable to ML/TF risk of Politically Exposed Persons (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. High Net Worth customers investing in the securities sector 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. Foreign Clients and non-resident individual customers pose 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 has a difficult task to ensure legitimacy of the sources.

GPH Securities (Pvt) Limited has no PEPs as its client; however, the company has 1 non-resident individual client and has a few High net worth individual clients. High Net worth clients were assigned the benchmark value of trades exceeding Rs. 1,000,000 (One Million rupees) which after deliberation has been increased to Rs. 2,500,000 (Two and a half Million Rupees). All clients of the company are individuals (natural persons) and company has no corporate clients (legal entities). No clients are identified to belong from the high risk jurisdiction areas or from Afghanistan *Hayt*

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Diaspora. All the clients are well documented and go through periodic risk assessment with respect to customer identification, source of Income and trade behaviours.

Risk rating is assigned by looking at all product aspects and corresponding data periodically.

- 3- Geography (Including Transnational Risk):** Pakistan's geographical landscape and porous borders increase its vulnerability to both ML and TF. Data shows that 99% of branches of securities brokers are centered in Karachi, Islamabad and Lahore, with no broker having any branch out of Pakistan. 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 Balochistan and KPK has porous borders with Afghanistan and Iran, therefore are highly exposed to geographical vulnerability. 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.

GPH Securities (Pvt) Limited does not have any branches other than its head office in Lahore. No customer is identified in belonging to areas along the porous border. Regular/ periodic updates are made on SECP eservices portal, declaring no customer is identified to belong to the proscribed list communicated to the brokerage house by interior ministry, police and the UN.

Risk rating is assigned by looking at all product aspects and corresponding data periodically.

- 4- Delivery Channel:** Delivery channels can increase ML risk in the securities market based on the use of wire transfers, online payment transaction, payment through debit/credit cards, and Internet-based payment systems. Identification of the transaction needs to be verified to know the origin and purpose of the transaction.

GPH Securities (Pvt) Limited manages, tracks and verify all the transactions that take place from clients and ensure it is involved in trading of securities rather than our organization being used as in intermediary to legalize any illicit activity.

Risk rating is assigned by looking at all product aspects and corresponding data periodically.

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Types of crime and ML ratings:

Securities Market face the possible ML risk of crimes as follows:

- 1- Corruption: Corruption being a major crime being faced by Pakistan contributes to the risk of ML. In securities market presence of PEPs increase the risk of corruption and hence ML.
- 2- Terror Financing: Terrorism has hit Pakistan financially like no other country. There is a possibility of individuals using the investment funds to layer suspicious transactions. Persons belonging to banned outfits being involved in the securities market pose the risk of ML.
- 3- Insider Trading and Market Manipulation: Although it may not pose a serious ML risk but the possibility of market manipulation to gain extravagant returns may benefit wrong individuals to divert quick money into illicit activities.

GPH Securities (Pvt) Limited ML Risk rating with respect to the crimes depends on the number of PEPs client which decreases the risk of corruption, person identified to belong from the terror outfits which rules out terror financing and any trace of insider trading being found. However, if these things change the low risk rating could become High risk rating.

Overall Risk Rating of GPH Securities (Pvt) Limited:

After considering all the factor into account when assessing the ML/TF risk associated with GPH Securities (Pvt) Limited, the overall risk rating based on applicable rules and regulations, and NRA report insights, the company's risk rating is Low to Moderate.

Internal AML/CFT Risk Assessment	
Risk Rating	Low/ Moderate/ High
Customer Type Risk	Low
Product Type Risk	Low
Geography Risk	Low
Delivery Channel Risk	Low
Overall Risk Rating	Low

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Regulatory Screening and reporting of UIN's/ Clients as required by SECP:

GPH Securities (Pvt) Limited being an SECP regulated entity is required to frequently screen its customer database in order to identify possible individuals/ entities that are identified as ML/TF risks by the state. Coordinated listings of suspected individuals/entities are formulated by NACTA, Ministry of Foreign Affairs (MoFA) and United Nations, providing updated guideline for the RP's to follow and comply. Government of Pakistan incorporates the suspected list in the fourth schedule for further assistance and guideline. The company is required to:

- a) Screen its customer database from the listings provided by NACTA, MoFA, UN and GoP.
- b) The listings to be recorded in hard and soft copy.
- c) Reporting to be made in case of a match to the SECP and FMU.
- d) Regular screening and results to be reported to the SECP on <https://eservices.secp.gov.pk/> against all new suspected listings.
- e) AML/CFT quarterly survey report to be filed for all quarters within 30 days after the end of respective financial quarter at <https://eservices.secp.gov.pk/>.
- f) AML/CFT Reporting by Regulated Entities to be filed on annual basis within 30 days after the end of fiscal year ending 30 June at <https://eservices.secp.gov.pk/>.

TFS Obligations - Company shall undertake TFS obligations under the United Nations (Security Council) Act 1948 and/or Anti-Terrorism Act 1997 and any regulations made there under, including: (a) develop mechanisms, processes and procedures for screening and monitoring customers, potential customers and beneficial owners/associates of customers to detect any matches or potential matches with the stated designated/proscribed persons in the SROs and notifications issued by MoFA, NACTA and MoI. (b) If during the process of screening or monitoring of customers or potential customers the regulated person finds a positive or potential match, it shall immediately: i. freeze the relevant funds and assets without delay the customer's fund/ policy or block the transaction, without prior notice if it is an existing customer in accordance with the respective SRO. ii. prohibit from making any funds or other assets, economic resources, or financial or other related services and funds in accordance with the respective SRO iii. Reject the transaction or attempted transaction or the customer, if the relationship has not commenced.

Developing a Digital Ecosystem:

The company is required to screen its customer database for risky clients and for that a digital system is required for accurate results and reporting. GPH Securities (Pvt) Limited is using the back office services from 'Smart Stock System' developed by Lahore Financial Services Limited. The system developers has a complete know how of the business and the requirements of the SECP. The automated system is used for all accounting transactions and also serves as a database. The company has regular interaction with the system developers telling them about the regulatory requirements of the SECP and discussing how the system

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can be made more useful for the company. Digitally these following things are assisting in reducing the ML/TF risks:

- a) Smart Stock System will work as an automated transaction system for the company. It will record all trade transactions, customer's details and provide a platform for reporting to be made to SECP.
- b) A complete digital screening process in the form of an Excel file to be maintained to allow easy and accurate screening of the clients.
- c) The Smart Stock system is altered to meet the screening needs of the company and hence it is completely updated from 24th April 2020 onwards to hold the suspected individuals lists and allow the company to screen its clients from the suspected individuals on a click of a button.
- d) **NADRA Verisys:** RPs shall obtain a system from NADRA to verify the identification of a customer using reliable independent source documents, data or information including verification of CNICs from NADRA Verisys/Biometric. Similarly, RPs shall identify and verify the customer's beneficial owner(s) to ensure that the RP understands who the ultimate beneficial owner



Humayun Shahzada

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CEO GPH Securities (Pvt) Limited