

Policies & Procedures

Anti-Money Laundering and Know Your Customer Policy

1. About Vector Securities

Vector Securities is privately held, limited liability company, operating as equity brokerage firm in Pakistan. Headquartered in Karachi, the financial hub of Pakistan, this firm provide advisory and trade execution platforms across multiple asset classes to retail and institutional investors.

Vector Securities is registered with Pakistan Stock Exchange (PSX) as a Stock broker.

Our dedicated team is available to assist clients to gain insight into the Pakistani financial landscape, to understand the risks/rewards of the financial markets, and to guide them through the account opening and investment process.

Our client list includes banks, mutual funds, financial institutions, corporations and individuals.

2. Introduction

Pursuant to the recommendation by Financial Action Task Force (FATF), Securities and Exchange Commission of Pakistan has issued AML/CFT Regulations vide their **S. R. O. 770 (I)/2018** and designed guidelines for implementation by regulated financial sector to prevent and combat Money Laundering and Terror Financing activities. As per the PSX Notice No. PSX/N-5791 dated October 04, 2018, all the TRE Certificate Holders have been advised to devise AML and KYC policy in compliance with SECP guidelines.

Vector Securities being equity broker registered with Pakistan Stock Exchange (PSX) is committed to adhere to all Local and International AML/CFT laws and will review its policies and strategies on regular basis to provide guidelines for its implementation by staff at Vector Securities.

3. Objective

The objective of this AML and KYC policy is to enable Vector Securities to better understand its customer, provide policy framework to the staff to remain vigilant in preventing money laundering and terror financing activities and comply with applicable laws and regulations.

Key objective pursued by this policy include:

- Identify ML/TF risks relevant to Vector Securities;
- Assess ML/TF risks in relation to customer, country or geographical area, product, services, transactions and their delivery channels.
- Design and implement policies, controls and procedures that are approved by Board of Directors to manage and mitigate the ML/TF risks identified and assessed;
- Monitor and evaluate the implementation of mitigating controls and improve systems where necessary;
- Keep their risk assessments current through ongoing reviews and, when necessary, updates;
- Document the RBA including implementation and monitoring procedures and updates to the RBA; and
- Have appropriate mechanisms to provide risk assessment information to the Commission.

Shall there be any query or required clarification, please feel free to contact the compliance department of Vector Securities at info@vector.com.pk

4. Role of Board of Directors and Senior Management

Although Directors may not be involved in the handling of ML/TF transactions, it is important that they understand the statutory duties placed upon them, their staff and the firm itself given that these individuals are involved in approving AML/CFT policies and procedures.

Vector Securities being regulated person is required to follow AML and KYC guidelines formulated by Apex regulator SECP and the frontline regulator PSX. The Board and Senior Management shall have thorough knowledge and understanding of the risks the firm may confront with and devise policies to adopt Risk based approach (RBA) to assess risk, develop and implement adequate controls and procedures to mitigate those risks.

5. Scope

The AML and KYC policy is applicable to all the staff at Vector's Main Office and Branches and to all the Institutional and individual clients routing transaction through Vector Securities.

6. Three Lines of Defense

Vector Securities should adopt following three lines of defense to combat money laundering and terror financing:

- First the business units (e.g. front office, customer-facing activity): They should know and carry out the AML/CFT due diligence related policies and procedures and be allotted sufficient resources to do this effectively.
- Second the Compliance Officer, the compliance function and human resources with sufficient knowledge and experience to develop and maintain systems and controls and reports directly and periodically to Board of Directors. The compliance officer shall be central point of contact for regulators and be responsible to file a Suspicious Transaction Reporting ("STR") with the FMU, in accordance with the requirements under the Law.
- Third the internal audit function, should periodically conduct AML/CFT audits on an Institution-wide basis and be proactive in following up their findings and recommendations

7. Customer Identification

Type of Customers, Information & Documents Required

Vector Securities shall obtain the minimum information/ set of documents from various types of customers as per details given in Annexure No.2 to these policies.

8. Customer Due Diligence (CDD)

Prior to establishing relationship with new customer Vector Securities shall carry out due diligence to avoid opening anonymous or fictitious accounts and take following steps to ensure identity and integrity of customer;

- Obtain basic background information;
- Information about customer's business, source of income and source of wealth;
- Confirm identity and integrity of representative of financial institutions and other corporate client;
- In case of companies, trust and other legal entities, establish its beneficial ownership and beneficial ownership of fund managed by Vector;
- New customer should be filtered through list of sanctioned persons/entities under United Nations Security Council (UNSC) Resolutions adopted by Pakistan and published via SROs or proscribed under the Anti-Terrorism Act, 1997. Any applicant name found in the same shall be rejected.

9. Risk Assessment of Customer

Vector has designed a risk profiling form appended as annexure 2, to assess risk relating to different type of customers, countries or geographic areas, products, services, transactions and classified them into different levels of risk i.e. High, Medium, Low and None;

High-Risk Classification Factors

a) Customer risk factors:

Customer with following factors shall be classified in HIGH RISK CATEGORY;

- Politically Exposed Persons (PEPs) and Family members of PEPs
- Public Office Holders
- The business relationship is conducted in unusual circumstances (e.g. significant unexplained geographic distance between the Vector and the customer).
- Non-resident customers.
- Legal persons or arrangements.
- Companies that have nominee shareholders.
- Business that is cash-intensive.
- The ownership structure of the customer appears unusual or excessively complex given the nature of the customer's business such as having many layers of shares registered in the name of other legal persons;
- shell companies, especially in cases where there is foreign ownership which is spread across jurisdictions;
- trusts and other legal arrangements which enable a separation of legal ownership and beneficial ownership of assets;
- Requested/Applied quantum of business does not match with the profile/particulars of client;
- The customer has been refused facilities by another equity broker due to concerns over illicit activities of the customer.
- Accounts where the accountholder has instructed the RP not to issue any correspondence to the accountholder's address. Such accounts do carry additional risk.

Annexure 1 to this policy enlist further example of suspicious activities "Red Flags" for AML/CFT.

b) Country or geographic risk factors: The factors that may indicate a high risk are as follow:

- Countries identified by credible sources, such as mutual evaluation or detailed assessment reports or published follow-up reports by international bodies such as the FATF, as not having adequate AML/CFT systems.
- Countries subject to sanctions, embargos or similar measures issued by, for example, the United Nations.
- Countries identified by credible sources as having significant levels of corruption or other criminal activity.
- Countries or geographic areas identified by credible sources as providing funding or support for terrorist activities, or that have designated terrorist organizations operating within their country.

c) Product, service, transaction or delivery channel risk factors: In identifying the risks of products, services, and transactions, the following factors should be considered:

- Anonymous transactions (which may include cash).
- Non-face-to-face business relationships or transactions.
- Payments received from unknown or un-associated third parties.
- International transactions, or involve high volumes of currency (or currency equivalent) transactions
- New or innovative products or services that are not provided directly by the Vector, but are provided through channels of the institution;

- Products that involve large payment or receipt in cash; and
- One-off transactions.

Enhanced Due Diligence

In case of customer categorized as HIGH RISK, Vector shall have enhanced due diligence (EDD) when dealing with such a customer. Following steps should be taken in case of Enhance Due Diligence;

- Account opening shall be approved by director;
- Activities and transactions of HIGH RISK customers should be monitored and any unusual transactions should be reported in a SUSPICIOUS TRANSACTION REPORT (STR).
- In case of Cross-board correspondence relationship, Vector should enter into agreement with foreign institution and include therein CDD measures of foreign institution applicable to their clients and implementation of AML/CFT controls.

Following are further enhanced CDD measures that could be applied for high-risk business relationships:

- 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.
- Conducting enhanced monitoring of the business relationship, by increasing the number and timing of controls applied, and selecting patterns of transactions that need further examination.

Low Risk Classification

a) Customer risk factors: As per regulations following regulated persons should be categorized as LOW RISK;

- Regulated person and banks provided they are subject to requirements to combat money laundering and terrorist financing consistent with the FATF recommendations and are supervised for compliance with those requirements;
- Public listed companies that are subject to regulatory disclosure requirements to ensure adequate transparency of beneficial ownership;

b) Country risk factors:

- Countries identified by credible sources, such as mutual evaluation or detailed assessment reports, as having effective AML/CFT systems.
- Countries identified by credible sources as having a low level of corruption or other criminal activity.

Vector shall perform simplified due diligence (SDD) where risk identified is categorized as Low Risk.

Risk Matrix

Vector shall use a risk matrix (Annexure 5) as a method of assessing risk in order to identify the types or categories of customers that are in the low-risk category, those that carry somewhat higher, but still acceptable risk, and those that carry a high or unacceptable risk of money laundering and terrorism financing.

10.Risk Management

The risk mitigation policies, procedure and controls shall commensurate with level of risk and Vector's risk tolerance. Following risk mitigation measure that Vector shall follow in addition to other controls:

- Determining the scope of the identification and verification requirements or ongoing monitoring based on the risks posed by particular customers;
- Setting transaction limits for higher-risk customers or products;
- Requiring senior management approval for higher-risk transactions, including those involving PEPs;
- Determining the circumstances under which they may refuse to take on or terminate/cease high risk customers/products or services;
- Determining the circumstances requiring senior management approval (e.g. high risk or large transactions, when establishing relationship with high risk customers such as PEPs).

11. Monitoring AML/CFT Systems and Controls

Vector should monitor the risk identified and assessed as they may change or evolve over time due to certain changes in risk factors, which may include changes in customer conduct, development of new technologies, new embargoes and new sanctions. Vector shall update their systems as appropriate to suit the change in risks.

Additionally, Vector shall assess the effectiveness of their risk mitigation procedures and controls, and identify areas for improvement, where needed. For that purpose, Vector shall consider monitoring certain aspects which include:

- the ability to identify changes in a customer profile or transaction activity/behaviour, which come to light in the normal course of business;
- the potential for abuse of products and services by reviewing ways in which different products and services may be used for ML/TF purposes, and how these ways may change, supported by typologies/law enforcement feedback, etc.;
- the adequacy of employee training and awareness;
- the adequacy of internal coordination mechanisms i.e., between AML/CFT compliance and other functions/areas;
- the compliance arrangements (such as internal audit);
- the performance of third parties who were relied on for CDD purposes;
- changes in relevant laws or regulatory requirements; and
- changes in the risk profile of countries to which Vector or its customers are exposed to.

12. New Product and Technologies

Vector Securities shall comply with all the Apex and Frontline regulators while offering new product and monitor internet trading or other technological advancement as per guidelines of regulators.

13. Due Diligence and On-Going Due Diligence

CDD is not a one-time process. Vector should ensure that on-going due diligence on the customer relationship and scrutiny of transactions is undertaken to ensure that the transactions executed in a particular account are consistent with Vector's knowledge of the customer, its business, risk profile, historical pattern of transactions and source of funding.

Vector should also ensure that the customer's records are updated at regular intervals of the time and sufficient information is obtained regarding any significant change in the customer's profile.

All the CDD requirement for existing customers shall be carried out and relevant information obtained as quickly as possible.

Further, tipping-off risk shall be taken into account while performing CDD process of any new or existing customers.

14. On-going Monitoring of Business Relationships

To keep the due diligence information up-to-date, the relevant department shall monitor the conduct of relationship to ensure that it is consistent with the nature of business stated when the relationship/account was opened.

Vector shall update its CDD record on periodic basis or on occurrence of triggering event, whichever is earlier. Example of triggering event includes:

- Material changes to the customer risk profile or changes to the way that the account usually operates;
- Where it comes to the attention of the relevant department that it lacks sufficient or significant information on that particular customer;
- Where a significant transaction takes place;
- Where there is a significant change in customer documentation standards;
- Significant changes in the business relationship.

Vector 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:

- transaction type
- frequency
- amount
- geographical origin/destination
- account signatories

15. Record Keeping Procedure

All the documents provided by customer and CDD documents/information shall be attached with account opening form and CDD information shall be stored in electronic form in Vector's IT system to develop client's transaction parameters as per their risk profiling. As per regulations the record shall be preserved for at least 5 years.

16. Reporting of Suspicious Transactions Report

A 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. All the suspicious transactions should be put on inquiry and reported to the relevant regulatory authority as per regulations.

A proper record of all the suspicious transactions shall be maintained.

17. Internal Controls

Vector shall develop comprehensive system and internal controls in relations to

- An audit function to test AML/CFT systems, policies & procedures and their implementation
- Outsourcing arrangement
- Employee screening procedures to ensure high standards when hiring employees; and
- An appropriate employee training program.

ML/TF Warning Signs/ Red Flags

- Customers who are unknown to the broker and verification of identity / incorporation proves difficult;
- Customers who wish to deal on a large scale but are completely unknown to the broker;
- Customers who wish to invest or settle using cash;
- Customers who use a cheque that has been drawn on an account other than their own;
- Customers who change the settlement details at the last moment;
- Customers who insist on entering into financial commitments that appear to be considerably beyond their means;
- Customers who accept relatively uneconomic terms, when with a little effort they could have a much better deal;
- Customers who have no obvious reason for using the services of the broker (e.g.: customers with distant addresses who could find the same service nearer their home base; customers whose requirements are not in the normal pattern of the service provider's business which could be more easily serviced elsewhere);
- Customers who refuse to explain why they wish to make an investment that has no obvious purpose;
- Customers who are introduced by an overseas agent based in a country noted for drug trafficking or distribution
- Customers who carry out large numbers of transactions with the same counterparty in small amounts of the same security, each purchased for cash and then sold in one transaction, particularly if the proceeds are also then credited to an account different from the original account;
- Customer trades frequently, selling at a loss
- Customers who constantly pay-in or deposit cash to cover requests for bankers drafts, money transfers or other negotiable and readily marketable money instruments;
- Customers who wish to maintain a number of trustee or customers' accounts which do not appear consistent with the type of business, including transactions which involve nominee names;
- Any transaction involving an undisclosed party;
- transfer of the benefit of an asset to an apparently unrelated third party, or assignment of such benefit as collateral; and
- Significant variation in the pattern of investment without reasonable or acceptable explanation
- Transactions appear to be undertaken in a structured, sequential manner in order to avoid transaction monitoring/ reporting thresholds.
- Transactions involve penny/microcap stocks.
- Customer requests a securities provider to execute and/or clear a buy order and sell order for the same security or similar or correlated securities (and/or on behalf of the same beneficial owner), in close chronology.
- Transfers are made to the same person from different individuals or to different persons from the same individual with no reasonable explanation.
- Unusually large aggregate wire transfers or high volume or frequency of transactions are made with no logical or apparent reason.
- Customer invests in securities suddenly in large volumes, deviating from previous transactional activity.
- Customer conducts mirror trades.
- Customer closes securities transaction before maturity, absent volatile market conditions or other logical or apparent reason.

Annexure 2

S No.	Type of Customer	Information/Documents to be Obtained
1.	Individuals	A photocopy of any one of the following valid identity documents; (i) Computerized National Identity Card (CNIC) issued by NADRA. (ii) National Identity Card for Overseas Pakistani (NICOP) issued by NADRA. (iii) Pakistan Origin Card (POC) issued by NADRA. (iv) Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only). (v) Passport; having valid visa on it or any other proof of legal stay along with passport (foreign national individuals only).
2.	Sole proprietorship	(i) Photocopy of identity document as per Sr. No. 1 above of the proprietor. (ii) Copy of registration certificate for registered concerns. (iii) Copy of certificate or proof of membership of trade bodies etc, wherever applicable. (iv) Declaration of sole proprietorship on business letter head. (v) Account opening requisition on business letter head. (vi) Registered/ Business address.
3.	Partnership	(i) Photocopies of identity documents as per Sr. No. 1 above of all the partners and authorized signatories. (ii) Attested copy of 'Partnership Deed'. (iii) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact shall be clearly mentioned on the Account Opening Form. (iv) Authority letter from all partners, in original, authorizing the person(s) to operate firm's account. (v) Registered/ Business address.
4.	Limited Companies/ Corporations	i. Certified copies of: a) Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account; b) Memorandum and Articles of Association; c) Certificate of Incorporation; d) Certificate of Commencement of Business, wherever applicable; e) List of Directors on 'Form-A/Form-B' issued under Companies Act, 2017, as applicable; and f) Form-29, wherever applicable. ii. Photocopies of identity documents as per Sr. No. 1 above of all the directors and persons authorized to open and operate the account;
5.	Branch Office or Liaison Office of Foreign Companies	(i) A copy of permission letter from relevant authority i-e Board of Investment. (ii) Photocopies of valid passports of all the signatories of account. (iii) List of directors on company letter head or prescribed format under relevant laws/regulations. (iv) A Letter from Principal Office of the entity authorizing the person(s) to open and operate the account. (v) Branch/Liaison office address.

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

Note

- (i) The photocopies of identity documents shall be validated through NADRA verisys.
- (ii) In case of a salaried person, in addition to CNIC, an attested copy of his service card or certificate or letter on letter head of the employer will be obtained.
- (iii) In case of an individual with shaky/immature signatures, in addition to CNIC, a passport size photograph of the new account holder will be obtained.
- (iv) In case of expired CNIC, account may be opened on the basis of attested copies of NADRA receipt/token and expired CNIC subject to condition that regulated person shall obtain copy of renewed CNIC of such customer within 03 months of the opening of account. For CNICs which expire during the course of the customer's relationship, regulated person shall design/ update their systems which can generate alerts about the expiry of CNICs at least 01 month before actual date of expiry

and shall continue to take reasonable measures to immediately obtain copies of renewed CNICs, whenever expired. In this regard, regulated persons are also permitted to utilize NADRA Verisys reports of renewed CNICs and retain copies in lieu of valid copy of CNICs. However, obtaining copy of renewed CNIC as per existing instructions will continue to be permissible.

- (v) In case the CNIC does not contain a photograph, regulated person shall obtain following-
 - a. duly attested copy of either driving license, service card, nikkah nama, birth certificate, educational degree/certificate, pension book, insurance certificate.
 - b. a photograph duly attested by gazetted officer/Administrator/ officer of the regulated person.
 - c. a copy of CNIC without photograph duly attested by the same person who attested the photograph.
- (vi) The condition of obtaining Board Resolution is not necessary for foreign companies/entities belonging to countries where said requirements are not enforced under their laws/regulations. However, such foreign companies will have to furnish Power of Attorney from the competent authority for establishing Business Relationship to the satisfaction of the regulated person.
- (vii) The condition of obtaining photocopies of identity documents of directors of Limited Companies/Corporations is relaxed in case of Government/Semi Government entities, where regulated person should obtain photocopies of identity documents of only those directors and persons who are authorized to establish and maintain Business Relationship. However, regulated person shall validate identity information including CNIC numbers of other directors from certified copies of 'Form-A/Form-B' and 'Form 29' and verify their particulars through NADRA Verisys. The Verisys reports should be retained on record in lieu of photocopies of identity documents.

Explanation:- For the purpose of this Annexure I the expression "NADRA" means National Database and Registration Authority established under NADRA Act, (VIII of 2000).