



PAKISTAN STOCK BROKERS ASSOCIATION

(A company setup under section 42 of the Companies Act 2017)

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PSBA/Notice-111

September 6, 2023

NOTICE FOR MEMBERS

Joint Session by CDC, NCCPL, PSBA, and PSX on Regulatory Requirements

Respected Members,

Reference is made to the awareness session on Regulatory Requirements held on August 28 and August 29, 2023, for Lahore and Islamabad members.

As requested during the session please find enclosed herewith the presentation of the above-mentioned sessions.

Thank you,

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AKBER ALI
Officer - Secretariat

Copy to:

1. PSBA Website



**JOINT
REGULATORY AWARENESS SESSION
FOR SECURITIES BROKERS**

AUGUST 29, 2023

DISCLAIMER

The Securities Brokers should not construe this presentation as comprehensive and inclusive of all regulatory requirements applicable on them.

We intend to give this presentation only on key regulatory requirements applicable on Securities Brokers. Therefore, the Brokers are advised to read and understand the relevant laws and regulations to obtain complete understanding of their rights and obligations.

OUTLINE OF PRESENTATION

PSX

1. KEY REQUIREMENTS UNDER SECURITIES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2016
2. KEY REQUIREMENTS UNDER PSX REGULATIONS
3. COMMON OBSERVATIONS/NON-COMPLIANCE FROM PSX PERSPECTIVE

CDCPL

4. KEY REQUIREMENTS UNDER CDC REGULATIONS
5. COMMON OBSERVATIONS/NON-COMPLIANCE FROM CDC PERSPECTIVE

NCCPL

6. KEY REQUIREMENTS UNDER NCCPL REGULATIONS
7. COMMON OBSERVATIONS/NON-COMPLIANCE FROM NCCPL PERSPECTIVE

AML/CFT

8. KEY REQUIREMENTS AND OBSERVATIONS RELATING TO AML/CFT REGULATIONS

**KEY REQUIREMENTS
UNDER SECURITIES
BROKERS (LICENSING
AND OPERATIONS)
REGULATIONS, 2016**

KEY REQUIREMENTS UNDER SECURITIES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2016

CLAUSE	REGULATORY REQUIREMENTS			TIME FRAME
6(1A)	<u>FINANCIAL RESOURCE REQUIREMENTS</u>			At all Times
	CATEGORY OF SECURITIES BROKER	MINIMUM NET WORTH [PKR IN MILLION]	MINIMUM LIQUID CAPITAL [PKR IN MILLION]	
	Trading Only	15	5*	
	Online Only	7.5	Not applicable	
	Trading & Self Clearing **	70	10	
	Trading & Clearing	500	15	
<p>* The requirement to maintain LC and to submit the statements of LC shall NOT be applicable on a securities broker which has converted to Trading Only category and has completely transferred its custody and clearing functions including proprietary</p> <p>** Currently, Securities Brokers in the category of Trading & Self Clearing are required to maintain minimum NW of PKR 70 Million and it will be enhanced to PKR 75 Million from October 01, 2023. [Pls refer to PSX Notice PSX/N-272 dated March 17, 2023]</p>				

KEY REQUIREMENTS UNDER SECURITIES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2016

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
4	ELIGIBILITY CRITERIA FOR LICENSING OF A SECURITIES BROKER:	At All Times
	<ul style="list-style-type: none"> ▪ The identified Sponsors of the Securities Broker must collectively hold and retain at-least 51% of the share capital of the company. ▪ In case of Listed Company: At-least 25% of the share capital of company. ▪ Any change in Sponsors shall not be affected without prior written approval of the SECP. 	
	The Securities Broker and its Sponsors must NOT hold controlling interest in other Sec. Broker	
	The sponsors must have representation of at least 20% on the board of directors.	
	Applicant is not a single member company [except in case of Online Only Category]	
	Applicant shall ensure that relevant staff/professionals has obtained the mandatory certification of capital market. [Pls refer to PSX Notice PSX/N-1203 dated October 08, 2021 and PSX Notice PSX/N-212 dated March 01, 2023]	
	The Chief Executive of a Securities Broker should NOT hold such office in any other company	
	The Director/employee of the securities broker must NOT hold the position of a Director in any other Securities Broker.	

KEY REQUIREMENTS UNDER SECURITIES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2016

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
7	Applicants opting for the TC category shall be required to maintain Broker Fiduciary Rating 2 .	At all Times
	Applicants opting for the TSC category shall be required to maintain Broker Fiduciary Rating 3 .	
	The TSC and TC category brokers are required to obtain BFR within 6 months from the date of issuance of notification by SECP i.e. up to September 14, 2023.	
	In case TSC Broker fails to obtain BFR3 within stipulated time the assets under custody limit shall be reduced from 25 times to 15 times (must disclose on website and public advertisements).	
6	Submit monthly statements of Net Worth and Liquid Capital for each category. [Pls refer to PSX Notice PSX/N-1284 dated October 29, 2021]	Within 15 days of every month end
12	<ul style="list-style-type: none"> ▪ The broker should not publish, circulate or distribute any advertisement or any information which is false, misleading or deceptive. ▪ The broker should advertise its business publically only in accordance with the guidelines issued by securities exchange [Pls refer to PSX Notice PSX/N-741 dated June 17, 2019] 	At all Times

KEY REQUIREMENTS UNDER SECURITIES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2016

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
16(1)	Must have a dedicated Compliance Officer meeting the Fit & Proper Criteria	At all Times
	Frame policies and procedures to ensure compliance with the regulatory requirements governing prohibition of insider dealing and market abuse .	
	Maintain membership of an association of securities brokers which is approved by the SECP and abide by the code of conduct specified by such association at all times.	
	Ensure segregation of duties and information barriers between Proprietary and customer dealing functions.	
	Maintain a functional and accessible website as per requirements prescribed by the SECP and submit quarterly compliance report to the securities exchange. [Pls refer to PSX Notice PSX/N-456 dated April 02, 2021 and PSX Notice PSX/N-291 dated March 22, 2023]	Within 15 days of every quarter end
16(2)(k)	Do NOT agree or offer promise of predetermined or guaranteed return, profit or loss sharing etc. to a customer or another person.	At all Times
16(2)(ka)	Do NOT accept any money or deposit or borrowing from any segment of public including directors, sponsors etc. except in the manner prescribed by SECP.	

KEY REQUIREMENTS UNDER SECURITIES BROKERS (LICENSING AND OPERATIONS) REGULATIONS, 2016

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
16(4)&(5)	The Chief executive and his/her immediate family members as well as employees must NOT trade through another securities broker.	At All Times
16(2)	Do NOT trade on material non-public information or spread rumors or involve in any activity which contributes to manipulating the demand/supply of securities or to influence prices.	
16(7)	Reporting of trades executed by substantial shareholders and other directors of securities broker through another securities broker	Within 2 days of effecting of transaction
16A(ix)	Must have business continuity plan including a disaster recovery site and at-least one DR Terminal at a remote place.	At All Times
16A(xii) & 27	Must have adequate arrangements for resolving disputes & grievances of customers promptly but not later than thirty days of receipt.	
27 (4)	Submit information about customer grievances received, redressed and unresolved beyond 3 months, to the securities exchange along with the reasons thereof for delay.	Within 15 days of quarter end

**KEY
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PSX
REGULATIONS**

KEY REQUIREMENTS UNDER PSX REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS	TIMEFRAME
4.15	<ul style="list-style-type: none"> ▪ Must open & maintain Customer Relationship Form (CRF)/Sahulat Form for every customer. ▪ Must ensure that customer reads, understand and agrees to the T&C, Risk Disclosure Document and Tariff Schedule while opening the account. [Pls refer to PSX Notice PSX/N-7148 dated December 16, 2016 and PSX Notice PSX/N-1258 dated October 09, 2019] 	At the time of opening of Account
4.17	Ensure that the Customers' assets are kept fully segregated & protected from the assets and interests the broker.	At All Times
4.17.1 (a)	<p>Pass on profit to customers which is earned on their unutilized funds, unless specified otherwise in writing by any customer.</p> <ul style="list-style-type: none"> • The profit paid back to clients should not be more that the profit rate offered by the banks. • Do not solicit money from customers or public in general or make it part of its marketing material by offering return on unutilized funds. 	At All Times
Annex Ch # [4]	All orders of customers must be recorded & retained for evidence when needed.	
19.5	Collect margins and MtM losses from their respective clients for their trades in any Market.	
4.8.2	Submit pattern of shareholding of the company, Holding Company, if any, and Associated Company if it is declared as its Sponsoring Company in the format specified by PSX	Within one month of end of each half year

KEY REQUIREMENTS UNDER PSX REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
4.18	Transmit a Contract Note/Trade Confirmation to customer with minimum prescribed information. [Pls refer to PSX Notice PSX/N-3051 dated May 09, 2016]	Within 24 hours
4.21	Must provide a Quarterly Account Statement to its customers.	Within 15 working days
4.17.4	Submit Clients' Assets Segregation Statement (CASS) as per prescribe format of PSX.	Within 15 days of each fortnight
4.17.5	Submit an annual CASS duly verified by its statutory auditor .	Within 45 days of financial year end
4.20	<ul style="list-style-type: none"> ▪ Register every employee in UIN database with all relevant registration details ▪ Update/modify the registration details whenever any change occurs. 	Within 5 working days
4.23	Always receive from or pay to customers money drawn on customer's own bank account , in the name of customers only.	At All Times
	Accept cash in excess of PKR 25,000 only in exceptional circumstances and report the same to the Exchange with reasons. [Pls refer to PSX Notice PSX/N-348 dated April 08, 2022]	
19.2	Maintain minimum Base Minimum Capital (BMC) with the Exchange as per allowed collateral.	

KEY REQUIREMENTS UNDER PSX REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
4.24.2	Broker shall provide to its clients a tariff schedule annexed to CRF / Sahulat Form and shall obtain the consent of the clients on the tariff schedule through signature or using digital means or otherwise in written form.	At all Times
4.24.3	Communicate to its clients any change in applicable regulatory and statutory levies .	Within seven days of any change
	Communicate to its clients any change in Commission rate and any other charges.	Within thirty days of any change
4.25	<ul style="list-style-type: none"> ▪ Ensure that the PSX provided endpoint security and antivirus solution remain installed and operational at all times on all trading terminals. ▪ Ensure that only PSX certified ancillary software are installed on the trading terminals. <p><i>Note: PSX has consolidated and redefined PSX's existing Information Security Policies and guidelines for securities brokers. The minimum Information Security Standards have become applicable and securities brokers are required to comply the same, which is effective from June 27, 2023.</i></p>	At All Times

KEY REQUIREMENTS UNDER PSX REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
4.26	Submit annual financial statements along with audit report to PSX.	Within 04 months
	Submit half-yearly financial statements to PSX.	Within 60 days
	File monthly financial information to SECP through online Financial Information System (FINS).	Within 10 days
4.28	Charge brokerage commission from customers upon the execution of orders within the minimum and maximum Slabs prescribed by PSX.	At All Times
10.15	Blank Sale in Ready Market is prohibited for securities broker at its own account or its clients.	
13.4	<ul style="list-style-type: none"> ▪ Sale in DFC Market through normal sale order window (F5) without owning securities or pre-existing interest, is prohibited ▪ Blank Sale in DFC Market is allowed to be executed only through special sale order window (F8) ▪ Broker should modify blank sale executed inadvertently through normal sale order window (F5) during sale modification session. 	

KEY REQUIREMENTS UNDER PSX REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
4.12	The sponsors, directors and employees of broker shall be required to exercise due care and diligence while commenting or interacting with the media in any manner.	At All Times
4.13	Broker shall be required to immediately report any violation of any provisions of PSX Regulations by any Securities Brokers to PSX, which may come into its notice.	
18.2	Any brokers can also file application for arbitration with PSX in case of any dispute with customer.	
4.30A	<p>Online Only Broker shall provide trading services to its clients through online mode only.</p> <p>Shall comply with Regulations governing Internet Trading Regulations in case it provides online trading facility through IBTS and Minimum Information Security Standards prescribed by PSX.</p>	At All Times
4.30A.2	<p>Online Only Broker shall not engage in proprietary trading.</p> <p>Online Only Broker shall not Perform any other activity as restricted by SECP or PSX.</p>	At All Times

KEY REQUIREMENTS UNDER PSX REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
22A.2	Broker may open Customer Facilitation Center , subject to prior intimation to PSX on their letterhead, signed by authorized signatories, with the information as prescribed by PSX in Chapter 22A of PSX Rulebook.	At All Times
22A.3	<p>ACTIVITIES PERMITTED:</p> <ul style="list-style-type: none"> (a) Facilitate and guide customers in account opening and conducting KYC verification check; (b) Make available account opening forms, Risk Disclosure Document, Investors Awareness Guide, tariff structure and any print or electronic material for marketing education and tutorial purposes; (c) Address grievances and complaints of customers; and (d) Any other activity as may be permitted by PSX. 	
22A.4	<p>ACTIVITIES PROHIBITED:</p> <ul style="list-style-type: none"> (a) Conduct trading activities on its own account or on account of its customers; (b) Provide investment advisory services or trading recommendation to its customers; (c) Engage in cash receipt/payment from/ to customers; (d) Install Trading Terminals or any trading related applications obtained from PSX or any third party; (e) Deploy system operators/ traders; (f) Maintain any books of accounts, records etc.; and (g) Any other activity as may be prohibited by PSX. 	At All Times

KEY REQUIREMENTS UNDER PSX REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS	TIME FRAME
7A.3	Maintain high standard of integrity, promptitude and fairness and exercise due care, skill and diligence while engaging in trading activities .	At All Times
7A.4.2	Ensure, while trading the concerned employee strictly observes the Code of Conduct as specified by PSX under PSX Regulations, take appropriate internal controls and ensure from time to time that all reasonable measures are being taken to put in place proper safeguards for prevention of Market Misconduct.	
7A.5	<p>Not to indulge in:</p> <ul style="list-style-type: none"> ▪ Insider Trading ▪ False trading, Market rigging (e.g. Wash Trades, Pre-arranged Trades/ Matched Orders) ▪ Market manipulation ▪ Market misconduct through engaging in: <ul style="list-style-type: none"> ○ Short Sale and/ or Blank Sale effected to manipulate the price of listed security or derivative contracts; ○ Unusual trade rectifications and/or deals recorded in negotiated deals market. 	
7A.8	In case of becoming aware with or having reasonable grounds to believe that a Market Misconduct has been committed or attempted to be committed, may report that instance to PSX along with supporting documentary evidences. The identity of such whistleblower shall be kept confidential.	

**COMMON
OBSERVATIONS/NO
N-COMPLIANCE
FROM PSX
PERSPECTIVE**

COMMON OBSERVATIONS/NON-COMPLIANCE FROM PSX PERSPECTIVE



COMMON OBSERVATIONS/NON-COMPLIANCE FROM PSX PERSPECTIVE



**KEY
REQUIREMENTS
UNDER
CDC
REGULATIONS**

KEY REQUIREMENTS UNDER CDC REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS
6.2.2 & 6.7.3	<p>Standardized SAOF (opened after June 15, 2009); or CRF/KYC Application Form and Sahulat Account Opening Form (opened after June 17, 2019) respectively, should be complete in all respect and available with the Participant.</p> <p>SAOF/CRF/Sahulat Account Opening Forms shall be in place to handle the securities in the Sub-Account in compliance with section 24 of the CD Act.</p>
6.2.3	<p>Contents of SAOF/CRF/Sahulat Account Opening Form as approved by CDC and SECP should not be modified or altered on its own.</p>
6.2.4, 6.2.5, 6.2.5A & 6.2.6(b)	<p>Registration details entered into the CDS by the Broker are matched with the details provided in the SAOF/CRF and Sahulat Account Opening Form, as the case may be, by the Sub-Account Holders.</p>
6.2.7	<p>Sub-Account closed by the Participant should be on the request of the customer or after fulfilling regulating compliance as specified in the SAOF. Moreover, request shall be duly signed by the client and Broker shall verify the signature or received from registered email address (if received electronically)</p>
9.2.1	<p>Free-Delivery Transactions: The movements from clients' sub-accounts through free delivery facility are made in accordance with the CDC Regulations and/or after obtaining due authorization from clients and other documents as specified in the Regulations and Procedures</p>

KEY REQUIREMENTS UNDER CDC REGULATIONS

CLAUSE	REGULATORY REQUIREMENTS
6.7.2	<p><u>Pledge Authorization</u> shall be obtained by the Participant prior to initiating pledge transaction in the manner prescribed by CDC.</p> <p>Sub-Account Holders who are the majority shareholder, sponsor, director, chief executive officer of the Participant or their close relative are required to submit prior <u>bi-annual written authorization and indemnity</u> for pledging of securities.</p> <p>However, where the proprietary Sub-Account of the TO maintained with the PCM or T&C, <u>one-time specific</u> written authorization shall be obtained on the standard format as prescribed by CDC</p> <p>Participant shall also submit a <u>declaration to Eligible Pledgee</u> on each fortnight, confirming that Pledge Transactions executed by him during that period had prior written Pledge Authorizations.</p>
8.2.1 (a) (e), 8.6.1 (a) (e)	<p><u>Deposit And Withdrawal Of Physical Securities:</u></p> <p>Records relating to deposit and withdrawal of physical securities shall be available with the Participant to ensure proper documentation.</p>
7.1.1	<p>Participant shall meets the <u>Hardware and Software specifications</u> as prescribed by the CDC at all times.</p>

**COMMON
OBSERVATIONS/
NON-COMPLIANCE
FROM CDC
PERSPECTIVE**

COMMON OBSERVATIONS/NON-COMPLIANCE FROM CDC PERSPECTIVE

SAOF/CRF/Sahulat Account Opening Form not available.

- Handling of Book entry securities without obtaining SAOF/CRF/Sahulat Account Opening Form.
- General Terms & Conditions are not available/ agreed by the client in Online Portal.
- Undertaking & Declaration are not available/ agreed by the client in Online Portal.

Completeness of SAOF/CRF/Sahulat Account Opening Form:

- Unsigned SAOF/CRF/Sahulat Account Opening Form.
- Zakat Status not marked or declaration not uploaded.
- Operating Instruction not marked & Signed by the Sub-Account Holder(s).
- Witnesses missing.

Mismatched of Registration Details with CDS and SAOF/CRF/Sahulat Account Form or KYC Form:

- | | |
|----------------------|--------------------|
| a) Email address | b) Mailing address |
| c) Permanent Address | d) Mobile Number |
| e) Nominee | f) IBAN |

Unavailability of physical Securities Deposit and Withdrawal Forms.

Evidence of quarterly balance statement not available for the clients who had opted physical statement:

- Courier Slips not available.
- Only sent to Active accounts instead of all accounts other than closed.

COMMON OBSERVATIONS/NON-COMPLIANCE FROM CDC PERSPECTIVE

[Copy of fortnightly pledge declaration not available.](#)

[Requests of Free Delivery transactions not available for following:](#)

- Movement of Securities by way of Portfolio transfer.
- Movement of Securities by way of Death or Transmission.
- Movement of Unlisted Securities.

[Hardware Software specification:](#)

- a) Old version of Windows.
- b) Processor not upto the requirement.
- c) System not password protected.
- d) Password complexity is disabled.
- e) Antivirus not updated or active on run-time.
- f) Antivirus quick scan instead of full scan.

**KEY
REQUIREMENTS
UNDER
NCCPL
REGULATIONS**

KEY REQUIREMENTS UNDER NCCPL REGULATIONS

CLAUSE REFERENCE	REGULATORY REQUIREMENTS
9.15.2(ii) of NCCPL Regulations	Broker should ensure that a particular mobile number and/or email address is not used for more than one UIN except for conditions prescribed.
Chapter 12 NCCPL Regulation	Broker should collect applicable margins from his clients.
28.12.1 NCCPL Regulation	The evidence of clients' receipt of annual CGT certificates issued by the NCCPL to each investor through the Broker is available.
7B.3.2 NCCPL Regulation	The transactions executed by the Broker on behalf of a client in the Leveraged Market are supported with appropriate agreement.
Clause 33(1)(c) Leveraged Markets and Pledging Rules, Chapter VII.	Broker should fully disclose all risks involved and financial facilities available in the relevant transactions.
Clause 33(2) Leveraged Markets and Pledging Rules	The Broker has evaluated the credit worthiness of the clients.
Clause 33(2) Leveraged Markets and Pledging Rules	Credit limits should be assigned to each client.
Clause 33(3) Leveraged Markets and Pledging Rules, Chapter VII	The Broker should maintain record of compliance with clause 33 of Securities Leveraged Markets and Pledging Rules.

KEY REQUIREMENTS UNDER NCCPL REGULATIONS

CLAUSE REFERENCE	REGULATORY REQUIREMENTS
Clause 6 of the Securities Brokers Regulation, Clause 12.3.1 of NCCPL Regulation	The NCB/LC has been calculated in accordance with Third Schedule to the Securities and Exchange Rules and Securities Brokers Regulations.
5.4.1 NCCPL Regulation	The Broker meets the Technical and Performance requirement for operating NCSS.
SECP SRO 1110(1)/2010.	Necessary actions should be taken by the Broker to complete the compliance reporting through NCSS.
12.7.9 NCCPL Regulation	Cash deposited by the Securities Broker to the Company for the margins and MTM Losses and segregated towards clients is utilized towards Margin requirements and Mark-to-Market Losses against trades/transactions of that client.
28.10.1 NCCPL Regulation	Securities Broker has accurately identified the UINs that have not been able to pay the CGT liability.
Under relevant provisions of NCCPL Regulations related to admission criteria.	The Broker fulfills admission criteria in accordance with NCCPL Regulations such as continuous and timely information to the Company regarding its current Authorized Persons together with, in case the Securities Broker is a body corporate, Board Resolutions or attested Powers of Attorney pursuant to which the appointment of such Authorized Persons was made.
12.9.2 NCCPL Regulation	The Securities Broker has not created any charge or lien on the assets deposited with the Company against exposure margin and MTM Losses.

**COMMON
OBSERVATIONS /
NON-COMPLIANCE
FROM NCCPL
PERSPECTIVE**

COMMON OBSERVATIONS/NON-COMPLIANCE FROM NCCPL PERSPECTIVE

UIN Confirmations.

- Alternate procedures are being adopted for obtaining client confirmations which has reduced the instances of this observation. Further, updates have also been proposed in JI Regulations relating to confirmations.

Minimum system requirements are not met:

- Minimum system requirements for PC used for NCCPL's software are not met as required through NCCPL circular.

Discrepancies in client's registration details:

It includes instances where email addresses or mobile numbers have not been entered by the broker. Further, instances are also observed where same mobile number/email address has been used for multiple clients. The observations have been reduced after implementation of CKO regime and are only observed in UINs opened before CKO implementation .

Non-filing of Gazette reports:

- It includes instances where fortnightly gazette reports are either not filed or filed after elapse of filing period.



Liquid Capital:

- It include errors in calculation of LC, issues in treatment of related party transactions/balances, inclusion of BMC, shares/cash, short term/long term loans, subordinated loans, receivables/payables aging etc.

Leverage Market:

- Non-availability of leverage market agreements, non-performance of credit assessment of clients, no credit risk assessment policy etc.

Exposure Margin Collection:

- Trading is allowed to clients' despite having large receivable balances from them and no securities balance.

CGT Clearance and Annual CGT Certificates:

- It includes instances where broker obtains client's request for closure of account, however closes the account with a major delay. The process has now been automated and observation relating to closure of UIN before obtaining CGT clearance certificate is not reported.
- It includes instances where annual CGT certificates are not dispatched to clients or proof of dispatch has not been maintained.

**KEY
REQUIREMENTS &
OBSERVATIONS
RELATING TO
AML/CFT
REGULATIONS**

KEY REQUIREMENTS OF AML/CFT REGULATIONS

CLAUSE OF AML/CFT REGULATIONS, 2020	OBSERVATIONS	CORRECTIVE MEASURES
<p><u>Clause 05: Risk Mitigation and Applying Risk Based Approach</u> (a) have policies, controls and procedures, which are approved by its board of directors, to enable them to manage and mitigate the risks that have been identified in its own risk assessment and any other risk assessment publicly available or provided by the Commission.</p>	<ul style="list-style-type: none"> • Policy and Procedures are not in line with the revised AML / CFT Regulations, 2020. 	<ul style="list-style-type: none"> • AML / CFT Policy of the Securities Broker should be revised as per the requirements mentioned in AML / CFT Regulations, 2020. • Policy should be approved from the Board of Directors of the Securities Broker.
<p><u>Customer Due Diligence (CDD) and Beneficial Ownership</u> <u>Clause 9:</u> The Regulated person shall:</p> <p>a) Identify the customer; and b) Verify the identity of that customer using reliable and independent documents, data and information as set out in Annex 1 of AML/CFT Regulations, 2020.</p>	<ul style="list-style-type: none"> • KYC form of the clients are not available. • CNIC of the Clients and their associates not available. • Constitutional documents of corporate client not available. • Identity documents of the client / Beneficial Owner are not validated through NADRA verisys or Biometric Verification. 	<ul style="list-style-type: none"> • KYC Form of the clients should be properly filled and Securities Broker should ensure that clients profile/ particulars are updated whenever any changes occur • Identity documents shall be validated through NADRA Verisys or Biometric Verification. • Shall retain copy of NADRA Verisys or Biometric Verification (hard or digitally).

KEY REQUIREMENTS OF AML/CFT REGULATIONS

CLAUSE OF AML/CFT REGULATIONS, 2020	OBSERVATIONS	CORRECTIVE MEASURES
<p>Clause 8 (1): The regulated person shall conduct CDD in the circumstances and matters set out in section 7A(I) and 7(E) of the AML Act. [Pls refer to PSX Notice PSX/N-312 dated March 30, 2022]</p>	<ul style="list-style-type: none"> Evidences relating to proof of income of the client are not available. 	<ul style="list-style-type: none"> Obtain documents relating to proof of income of the client.
<p>Clause 8(3): The regulated person shall categorize each customer's risk depending upon the outcome of the CDD process.</p>	<ul style="list-style-type: none"> Risk profiling of the clients are not conducted considering the relevant risk factors associated with the clients i.e. type of customers, countries or geographic areas and particular product, services, transactions or delivery channels. 	<ul style="list-style-type: none"> Risk profiling of the clients should be conducted considering the relevant risk factors associated with the clients.
<p>Clause 11: The regulated person shall also identify the beneficial owner and take reasonable measures to verify the identity of the beneficial owner by using reliable and independent document, data or sources of information as set out in Annex 1, such that the regulated person is satisfied that it knows who the beneficial owner is.</p>	<ul style="list-style-type: none"> Beneficial owner of the account is not identified. Verification of Identity document of the Beneficial Owner not available. 	<ul style="list-style-type: none"> Identify and verify the identity of the beneficial owner of the account.

KEY REQUIREMENTS OF AML/CFT REGULATIONS

CLAUSE OF AML/CFT REGULATIONS, 2020	OBSERVATIONS	CORRECTIVE MEASURES
<p><u>Clause 21: Enhanced Due Diligence (EDD)</u></p> <p>Regulated person 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;</p>	<ul style="list-style-type: none">• Lack of mechanism and procedure relating to Enhance Due Diligence.• Enhanced Due Diligence of the High Risk clients are not performed.• Senior management approval is not obtained to commence or continue the business relationship with the High Risk client.	<ul style="list-style-type: none">• Formulate procedure and mechanism relating to EDD.• Obtain approval of senior management to commence or continue the business relationship with High Risk client.• EDD requires the collection and verification of the same information as standard CDD as well as, according to the level of risk involved, the collection and verification of information relating to the source of wealth (SoW) and source of funds (SoF) of the customer.

KEY REQUIREMENTS OF AML/CFT REGULATIONS

CLAUSE OF AML/CFT REGULATIONS, 2020	OBSERVATIONS	CORRECTIVE MEASURES
<p><u>TFS Obligations: Clause 25(1)(a):</u> 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 Mol.</p>	<ul style="list-style-type: none"> • AML/CFT policy does not include TFS related obligations. • Lack of mechanisms, processes and procedures to perform screening. • Complete database of the client and its associates not maintained. 	<ul style="list-style-type: none"> • TFS compliance program should be an integral part of overall AML/CFT compliance program. • Screening of customers and its associates should be performed and retain the relevant evidences in this regard. • Complete clients database should be maintained in its back office for screening purpose.
<p><u>Clause 27: Compliance Program</u> c) an ongoing employee training program;</p>	<ul style="list-style-type: none"> • AML/ CFT trainings not imparted to its employees. 	<ul style="list-style-type: none"> • Evidences relating to Employee training should be maintained.

Q & A



THANK YOU