

## CHAPTER 6

### GUIDELINES & STANDARDS FOR ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM

#### 1. General

- (i) With the view to preserve the integrity and safety of the financial system, it has always been important to prevent the possible use of the Exchange Company sector for money laundering and terrorist financing. To this end, since their inception, State Bank has been issuing various instructions to Exchange Companies/Exchange Companies of 'B' category from time to time in the shape of its FE Circulars and Circular Letters duly followed up with individual interactions during its monitoring and enforcement activities. In order to draw further attention on averting the risks posed by money laundering and financing of terrorism, the Anti Money Laundering (AML) and Combating Finance of Terrorism (CFT) guidelines are required to be followed in letter and spirit by the Exchange Companies.
- (ii) Exchange Companies/Exchange Companies of 'B' category are responsible for implementing the guidelines throughout their network, including branches, Franchises, payment booths etc.
- (iii) Proper documentation of transactions, maintenance of proper AML/KYC standards, reporting of business transaction and other activities of Exchange Companies/Exchange Companies of 'B' category is required.
- (iv) Utmost diligence is required while dealing with customers in terms of maintaining KYC standards, establishing bona fide and satisfying themselves with the beneficial ownership of transactions routed/executed through Exchange Companies/Exchange Companies of 'B' category.

#### 2. Documentation of Transactions

Exchange Companies/Exchange Companies of 'B' category are required to document each and every transaction as per related SBP regulatory requirements.

### **3. Know Your Customer & Customer Due Diligence**

Exchange Companies/Exchange Companies of 'B' category shall take all reasonable measures to perform Know Your Customer (KYC)/Customer Due Diligence (CDD) of their customers to establish and verify their identity. KYC/CDD in broader terms includes:

- (i) Identifying the customer and verifying the customer's identity on the basis of documents, data or information obtained from customer or any information from reliable and independent source.
- (ii) Identifying, if there is a beneficial owner who is not the customer, here, the Exchange Company/Exchange Companies of 'B' category should take adequate measures to identify and verify the beneficial ownership to its satisfaction.
- (iii) Obtaining information on the purpose and intended nature of the transaction.

### **4. Identification of Customers & Verification**

- (i) Every customer shall be identified for conducting any business transaction. In case of exchanging any currency equivalent to, or above, USD 2,500/- and conducting transfers/remittances transaction regardless of the amount, the following information should be obtained at the minimum:
  - (a) Full name as per identity document, including any aliases.
  - (b) Existing residential address or business address and contact number.
  - (c) Computerized National Identity Card (CNIC) /National Identity Card for Overseas Pakistani (NICOP)/ Pakistan Origin Card (POC) / Passport (having valid visa on it or any other proof of legal stay).
- (ii) Exchange Companies/Exchange Companies of 'B' category should also retain on record legible copies of all reference documents used for identification and verification in case of business transactions mentioned as above. The Exchange Companies/Exchange Companies of 'B' category shall further ensure the following:
  - (a) The signature of customer should be obtained on the receipt / form and should match with those on identity documents.
  - (b) The original identification document should be seen and the stamp of "Original Seen" should be affixed on retained copy of the identity documents.

## **5. Beneficial Ownership**

In relation to a customer of an Exchange Company/Exchange Company of 'B' category, beneficial owner means a person on whose behalf a transaction is being conducted and includes the person who exercises ultimate effective control over the transaction. In this respect:

- (i) Exchange Companies/Exchange Companies of 'B' category shall inquire whether there exists any beneficial owner in relation to a customer or transaction.
- (ii) In case of beneficial owner, reasonable measures shall be taken to verify the identity of the beneficial owner.

## **6. Enhanced Due Diligence**

Some customers may pose higher than average risk to Exchange Companies/Exchange Companies of 'B' category. In preparing their policies, Exchange Companies/Exchange Companies of 'B' category should consider risk factors like customer's background, country of origin, public or high profile position, and other risk indicators. Enhanced Due Diligence shall be applied specially when:

- (i) Exchange Company/Exchange Company of 'B' category has reason to believe that the customer has been refused transaction by other financial institution/Exchange Company.
- (ii) Conducting transactions for and on behalf of Politically Exposed Persons (PEPs). PEPs are individuals who are, or have been, entrusted with prominent public functions either domestically or by a foreign country. They also include associates of such persons and their family members.

## **7. Information on the Purpose and Intended Nature of Business Relations**

Exchange Companies/Exchange Companies of 'B' category shall obtain from customers information as to the purpose and intended nature of transaction.

## **8. Where CDD Measures are not completed**

In case Exchange Companies/Exchange Companies of 'B' category are not able to satisfactorily complete required CDD measures, they should not conduct the transaction. In the post transaction scenario, if the circumstances are suspicious, consideration should be given to file a Suspicious Transaction Report (STR) with the Financial Monitoring Unit (FMU).

## **9. Record Keeping**

Exchange Companies/Exchange Companies of 'B' category shall maintain all necessary records of transactions for a minimum period of 10 years from completion of the transaction. Exchange Companies/Exchange Companies of 'B' category shall retain on record legible copies of all reference documents used for identification and verification as mentioned at para 4 (ii) above. In this respect:

- (i) The record should be sufficient to permit reconstruction of individual transactions including the nature and date of the transaction, the type and amount of currency involved, so as to provide, when necessary, evidence for prosecution of criminal activity, admissible in a court of law.
- (ii) Exchange Companies/Exchange Companies of 'B' category shall, however, retain those records for longer period where transactions, customers or accounts involve litigation or it is required by court or other competent authority.

## **10. Reporting of Suspicious Transaction Reports /Currency Transaction Reports to Financial Monitoring Unit**

Exchange Companies/Exchange Companies of 'B' category, being 'Financial Institutions' under the Anti-Money Laundering (AML) Act 2010, are required to submit Suspicious Transaction Reports (STRs) and Currency Transaction Reports (CTRs), as per Section 7 of the AML Act, 2010, to the Financial Monitoring Unit (FMU). In this respect,

- (i) Exchange Companies/Exchange Companies of 'B' category shall file separate CTR for each transaction involving sale/purchase of foreign currency equivalent to PKR 2 million or above.
- (ii) Exchange Companies/Exchange Companies of 'B' category should monitor all complex, unusually large transactions and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. In case of suspicion, consideration should be given to file an STR with FMU.
- (iii) Attention of Exchange Companies/Exchange Companies of 'B' category is also drawn towards 'Red Flag Indicators' for the purpose of generating STRs to FMU as issued by FMU and available on its website. Further STR/CTR reporting forms and other guidelines can be accessed from FMU's website: [www.fmu.gov.pk](http://www.fmu.gov.pk).

## **11. Employee Hiring**

The Exchange Companies/Exchange Companies of 'B' category shall develop and implement appropriate screening procedures to ensure high standards and integrity at the time of hiring all employees, whether contractual or permanent.

## **12. Training**

Exchange Companies/Exchange Companies of 'B' category shall design and implement suitable training program for all relevant staff throughout their network including branches, Franchises, payment booths etc, in order to effectively implement legal and regulatory requirements as well as Exchange Company's own policies and procedures relating to combating money laundering and terrorist financing.

## **13. Nomination of Company Compliance Officer**

The Board of Directors of an Exchange Company/Exchange Company of 'B' category shall appoint/designate/nominate a suitably qualified and experienced person as Company Compliance Officer (CCO). The CCO shall be responsible for effective compliance of regulatory requirements and Exchange Company's own policies and procedures relating to combating money laundering and terrorist financing. The CCO shall serve as a contact point between the Chief Executive Officer (CEO) and senior management with regard to implementation of Company policy for combating money laundering and terrorist financing.

## **14. Compliance of Legal and Regulatory Framework**

- (i) The Exchange Companies/Exchange Companies of 'B' category should ensure strict compliance of legal and regulatory framework including the Statutory Notifications issued from time to time by the Government of Pakistan under United Nations (Security Council) Act, 1948 to apply certain measures for giving effect to the decisions of United Nations Security Council.
- (ii) The Exchange Companies/Exchange Companies of 'B' category shall take necessary action as per law in terms of list of Fourth Schedulers under Anti-Terrorism Act, 1997.