



**SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN
SPECIALIZED COMPANIES DIVISION
NON BANKING FINANCE COMPANIES DEPARTMENT**

No.NBFCD/CIRCULAR/2009

April 28, 2009

Circular No. 12 Of 2009

Customer Due Diligence (CDD)/Know Your Customer Policy (KYC)

In exercise of the powers conferred under section 282B(3) of the Companies Ordinance, 1984, read with Regulation 9 of Non Banking Finance Companies and Notified Entities Regulation 2008, the Securities and Exchange Commission of Pakistan hereby issues the following instructions to safeguard NBFCs against involvement in money laundering activities, terrorist financing and other illegal trades:

1. NBFCs shall formulate and put in place, a comprehensive Customer Due Diligence / Know Your Customer Policy (CDD/KYC) duly approved by their Board of Directors. CDD / KYC policy of the NBFCs shall interalia include a description of the types of customers that are likely to pose a higher than average risk to the NBFC and guidelines for conducting Enhanced Customer Due Diligence depending upon the customers' background, country of origin, public or high profile position, nature of business, etc.
2. **Minimum Information/Documents**
 - a. NBFCs shall obtain the following minimum information/set of documents from various types of customers / account holder(s) for examination and verification, at the time of opening account:

| <i>Type of Customer</i> | Information/Documents |
|----------------------------------|--|
| Individuals/Sole proprietor ship | Name |
| | Father's Name |
| | Address |
| | Telephone Number |
| | Copy of CNIC or Passport |
| | Sources of Income |
| | Business/Employment proof |
| Partnership Account | Name of partnership and partners |
| | Father's Name of partners |
| | Address |
| | Telephone No |
| | Copies of CNIC of all the partners |
| | Copy of latest financials of partnership |
| Joint Stock Companies | Name of Company and it's Directors |
| | Registered Address |
| | Telephone Number |
| | Copies of CNICs of all directors |



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| | Audited Accounts of the company |
| | Memorandum and Articles of Association |
| | Board Resolution |
| Club Societies and Associations | Certified copy of certificate of registration |
| | Certified copy of by laws/rules and regulations |
| | Board / Governing body Resolution |
| | Copy of latest financials of the Society/Association |
| Trusts | Copy of CNIC of all the trustees |
| | Certified copy of trust deed |
| | Trustee / Governing body Resolution |
| | Copy of latest financials of the Trust |
| Executors and Administrators | Copy of CNIC of the Executors/Administrator |
| | Certified copy of Letter of Administration |

- b. For all customers, NBFCs should determine whether the customer is acting on behalf of another person, and should then take reasonable steps to obtain sufficient identification data (such as copy of CNIC, or other relevant document/information) to verify the identity of the beneficiary.
- c. For customers that are legal persons or for legal arrangements, NBFCs are required to take reasonable measures to (i) understand the ownership and control structure of the customer (ii) determine that the natural persons who ultimately own or control the customer. This includes those persons who exercise ultimate effective control over a legal person or arrangement.
- d. Government accounts should not be opened in the personal names of the government official(s). Any such account, which is to be operated by an officer of the Federal / Provincial / Local Government in his / her official capacity, shall be opened only on production of a special resolution / authority from the concerned administrative department duly endorsed by the Ministry of Finance or Finance Department of the concerned Government.

3. Verification

Verification is an integral part of CDD / KYC measures for which NBFCs shall ensure that;

- a. copies of CNIC wherever required are invariably verified. Before opening the account, NBFCs shall verify CNIC by utilizing on-line facility of NADRA. In case NBFC or its branches do not have the on-line facility, then CNIC shall be verified from the Regional Office of NADRA. The cost of verification of CNIC from NADRA shall not be passed on to the existing or prospective account holder of NBFCs.



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- b. for all existing customers including depositors and borrowers, NBFCs shall obtain the copies of CNICs and all required information/documents latest by September 30, 2009.

4. High Risk Customers

NBFCs shall conduct enhanced due diligence when:

- (a) dealing with high-risk customers, business relationship or transaction including the following;
- I. non-resident customers;
 - II. non-legal persons or arrangements including non-governmental organizations (NGOs) / not-for-profit organizations (NPOs) and trusts / charities;
 - III. customers belonging to countries where CDD / KYC and anti-money laundering regulations are lax;
 - IV. customers with links to offshore tax havens;
 - v. high net worth customers with no clearly identifiable source of income; and
 - VI. customers dealing in high-value items .
- (b) there is reason to believe that the customer has been refused by another financial institution.
- (c) Dealing with politically exposed persons (including foreigners) or customers holding public or high profile positions. For politically exposed persons or holders of public or high profile positions, enhanced due diligence should include the following:
- i. Relationship should be established and/ or maintained with the approval of senior management including when an existing customer becomes holder of any public office or high profile position.
 - ii. Appropriate risk management systems shall be put in place to determine whether a potential customer, existing customer or the beneficial owner, is a politically exposed person, holder of public office or the holder of high profile position. The sources of wealth /funds of such customers, shall be monitored on regular basis.



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- (d) Establishing business relationship or transactions with counterparts from or in countries not sufficiently applying Financial Action Task Force (FATF) recommendations.

5. Low Risk Customers

Where there are low risks and information on the identity of the customer and the beneficial owner of a customer is publicly available, or where adequate checks and controls exist, NBFC may apply simplified or reduced CDD / KYC measures. Following cases may be considered for application of simplified or reduced CDD / KYC:

- a. Financial institutions 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.
- b. Public listed companies that are subject to regulatory disclosure requirements, Government administrations/ entities.

6. Record updation

NBFCs are also advised that CDD/KYC is not a one time exercise to be conducted at the time of entering into a formal relationship with customer / account holder. This is an on-going process and to this end, NBFCs are required to:

- a. Put in place a system to monitor the accounts and transactions on regular basis.
- b. Update customer information and records, if any, at reasonable intervals.
- c. Chalk out plan of imparting suitable training to the staff of NBFC periodically.
- d. Maintain proper records of customer identifications and clearly indicate, in writing, if any exception is made in fulfilling the CDD / KYC measures.

7. Record Retention

NBFCs shall keep records regarding the identification data obtained through the customer due diligence process (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence for at least five years after the business relationship is ended.

8. In case NBFCs are not able to satisfactorily complete required CDD/KYC measures, account should not be opened, business relationship should not be established and business transaction should not be carried out. Instead reporting of suspicious transaction be considered. Similarly, relationship with existing customer should be terminated and reporting of suspicious transactions be considered if CDD/KYC is found unsatisfactory.



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The above mentioned instructions are the minimum guidelines and NBFCs are encouraged to take additional measures if deemed appropriate.


28/4/2009
Asif Jalal Bhatti
(Director-NBFCD)

Distribution

- I. Chief Executives of all Non-Banking Finance Companies
- II. Leasing Association of Pakistan
- III. Investment Banking Association of Pakistan
- IV. Mutual Fund Association of Pakistan