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Not defined in current AML/CFT Regulations. (new definition proposed)	"**Class of Beneficiaries**" For beneficiary(ies) of trusts that are designated by characteristics or by class, financial institutions should obtain sufficient information concerning the beneficiary to satisfy the financial institution that it will be able to establish the identity of the beneficiary at the time of the payout or when the beneficiary intends to exercise vested rights.
Not defined in current AML/CFT Regulations. (new definition proposed)	**"Enhanced Due Diligence or EDD"** means a due diligence process that involves a greater level of scrutiny that commensurates with underlying risks associated with customers, products, transaction channels and geographic elements. EDD shall be in addition to Customer due diligence (CDD) measures and may include but not be limited to one or more measures as follows: i. Obtaining additional information on the customer (e.g. occupation, volume of assets, information available through public databases, internet, etc.), and updating more regularly the identification data of customer and beneficial ownership. ii. Obtaining additional information on the intended nature of the business relationship. iii. Obtaining information on the source of funds or source of wealth of the customer. iv. Obtaining information on the reasons for intended or performed transactions. v. Obtaining the approval of senior management to commence or continue the business relationship.

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	vi. Conducting enhanced monitoring of the business relationship by reviewing its nature and frequency of controls applied and selecting patterns of transactions that need further examination. vii. Where practical, requiring the first payment to be carried out through an account in the customer's name with a bank subject to similar CDD standards. EDD requirements may vary with the type of customer, products, channels and geography, therefore MFBs are encouraged to take additional/appropriate measures.
Not defined in current AML/CFT Regulations. (new definition proposed)	**"Identity Document**" means for the purpose of these regulations, the following which will be acceptable as an identity documents for natural persons: I. Computerized National Identity Card (CNIC) II. Smart National Identity Card (SNIC) III. Passport IV. National Identity Card for Overseas Pakistani (NICOP) V. Smart National Identity Card for Overseas Pakistani (SNICOP) VI. Pakistan Origin Card (POC)

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	VII. Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior VIII. Proof of Registration (POR) Card IX. Form-B/Juvenile Card (the term shall be replaced at appropriate places across the document)
Not defined in current AML/CFT Regulations. (new definition proposed)	**"Proliferation Financing or PF"** means an act of providing funds or financial services which may be used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations.
Not defined in current AML/CFT Regulations. (new definition proposed)	**"Settlor"** means natural or legal persons who transfer ownership of their assets to trustees by means of a trust deed or similar arrangement.
Regulation M-1 (Para 1) **1. Know Your Customer/ Customer Due Diligence Policy:** All MFBs shall formulate a comprehensive KYC/CDD policy duly approved by their Board of Directors. The policy shall be communicated down the line to relevant officers / staff. Copies of the KYC/CDD policy shall be submitted to the Agricultural Credit and Microfinance Department (AC&MFD) of the State Bank of	**Regulation M-1 (Para 1)** **1. Know Your Customer/ Customer Due Diligence Policy:** All MFBs shall formulate a comprehensive KYC/CDD policy duly approved by their Board of Directors. The policy shall be communicated down the line to relevant officers / staff. Copies of the KYC/CDD policy shall be submitted to the Agricultural Credit and Microfinance Department (AC&MFD) of the State Bank of Pakistan. Any change in

Existing Regulations /Instructions	Revised Draft of Proposed Regulations/Instructions
Pakistan. Any change in policy shall also be conveyed to SBP within seven (07) days of its approval from the Board of Directors. MFBs shall apply customer due diligence measures including identification and verification of customers before opening a new account or extending any credit facility or establishing new business relationships. MFBs shall take all reasonable measures to perform due diligence of their existing and prospective customers to establish their identity and to confirm that the customer is not exploiting microfinance banking channel for any criminal activity, money laundering or terrorist financing	policy shall also be conveyed to SBP within seven (07) days of its approval from the Board of Directors. MFBs shall apply customer due diligence measures including **but not limited to** identification and verification of customers before opening a new account or extending any credit facility or establishing new business relationships. MFBs shall take all reasonable measures to perform due diligence of their existing and prospective customers to establish their identity and to confirm that the customer is not exploiting microfinance banking channel for any criminal activity, money laundering or terrorist financing. **MFBs shall apply CDD requirements to existing customers on the basis of materiality and risk, and conduct due diligence on such existing relationships at appropriate times, taking into account whether and when CDD measures have previously been undertaken and the adequacy of data obtained.**
Regulation M-1: Customer Due Diligence (CDD) (Para 2.) **2. Identity of Individual Customers:** Identity of all the prospective customers shall be established with all reasonable efforts. Before establishing any banking relationship with the client, MFBs shall inter alia obtain, verify and record the following on KYC/CDD form or account opening form; a) Full name as per identity document; b) Computerized National Identity Card (CNIC)/Passport/National Identity Card for Overseas Pakistanis (NICOP)/Pakistan Origin	**Regulation M-1: Customer Due Diligence (CDD) (Para 2.)** **2. Identity of Individual Customers:** Identity of all the prospective customers shall be established with all reasonable efforts. Before establishing any banking relationship with the client, MFBs shall inter alia obtain, **biometric verification** and record the following on KYC/CDD form or account opening form **and relevant Information Technology (IT) systems**; a) Full name as per identity document;

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Card (POC)/Alien Registration Card (ARC) number or where the customer is not a natural person, the registration/ incorporation number or business registration number (as applicable); ….	b) **Identity document** number or where the customer is not a natural person, the registration/ incorporation number or business registration number (as applicable); ….
Regulation M-1: Customer Due Diligence (CDD) (Para 4.) **4. Verification of the Identity:** MFB shall verify identities of the customers (natural persons) from NADRA and in case of legal persons, identities of their natural persons from relevant authorities or where necessary using other reliable, independent sources and retain on record copies of all reference documents used for **identification** and verification. Identity verification shall be the responsibility of concerned MFB for which the customer should neither be obligated nor the cost of such verification be passed on to the customers.	**Regulation M-1: Customer Due Diligence (CDD) (Para 4.)** **4. Verification of the Identity:** MFB shall verify identities of the customers (natural persons) from NADRA and in case of legal persons, identities of their natural persons from relevant authorities or where necessary using other reliable, independent sources and retain on record copies of all reference documents used for identification and verification. Identity verification shall be the responsibility of concerned MFB for which the customer should neither be obligated nor the cost of such verification be passed on to the customers. **MFBs shall conduct biometric verification for all Pakistani citizens/ Afghan refugees holding PoR Cards, before establishing new relationships, except in cases of genuine reasons or technical issues as prescribed by SBP in the Frequently Asked Questions (FAQs) on Biometric Implementation in MFBs (Annexure - I).**
Regulation M-1: Customer Due Diligence (CDD) (Para 6.) **6. Provisional Account Opening:** After establishing identity of the prospective customers MFBs are allowed to provisionally open accounts (restricting debits) during the verification process of	**Regulation M-1: Customer Due Diligence (CDD) (Para 6.)** **6. Provisional Account Opening:** After establishing identity of the prospective customers MFBs are allowed to provisionally open accounts (restricting debits) during the verification process of **identity**

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CNIC, however customers must be appropriately informed about this. For the purpose, MFBs may accept initial deposit at the time of submission of necessary documents by their prospective customers (natural persons) subject to the following; i. Completion of verification within five (05) working days from the date of application of account opening; ii. Initial deposit receipt will be issued with 'Disclaimer' that account shall be opened after completing necessary due diligence including NADRA verification through **verisys or** bio-metric technology; ……	**document**; however, customers must be appropriately informed about this. For the purpose, MFBs may accept initial deposit at the time of submission of necessary documents by their prospective customers (natural persons) subject to the following; i. Completion of verification within five (05) working days from the date of application of account opening; ii. Initial deposit receipt will be issued with 'Disclaimer' that account shall be opened after completing necessary due diligence including NADRA verification **through bio-metric technology**; …….
Regulation M-1: Customer Due Diligence (CDD) (Para 8.) **8. Identification and Verification of Beneficial Owner:** ……. In case of legal arrangements, MFBs should identify and take reasonable measures to verify the identity of beneficial owners through the following information: I. for trusts, the identity of the settlor, the trustee(s), the protector (if any), the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust (including through a chain of control/ownership); and II. for other types of legal arrangements, the identity of persons in equivalent or similar positions.	**Regulation M-1: Customer Due Diligence (CDD) (Para 8.)** **8. Identification and Verification of Beneficial Owner:** ……. In case of legal arrangements, MFBs should identify and take reasonable measures to verify the identity of beneficial owners through the following information: I. for trusts, the identity of the settlor, the trustee(s), the protector (if any), the beneficiaries or class of beneficiaries, and any other natural person exercising ultimate effective control over the trust (including through a chain of control/ownership **as ascertained during CDD/EDD**); and II. for other types of legal arrangements, the identity of persons in equivalent or similar positions.

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	MFBs shall obtain from legal entities, the ultimate beneficial ownership information i.e. natural persons or individuals who ultimately own or control the company, that are required to maintain such information, as prescribed by SECP[1].
Regulation M-1: Customer Due Diligence (CDD) (Para 9.) **9. Dormant/In-Operative Accounts:** In case of dormant or in-operative accounts, MFBs may allow credit entries without changing at their own, the dormancy status of such accounts. Debit transactions/ withdrawals shall not be allowed until the account holder requests for activation and produces attested copy of his/her identity document, if already not available and MFB is satisfied with CDD of the customer. …..	**Regulation M-1: Customer Due Diligence (CDD) (Para 9.)** **9. Dormant/In-Operative Accounts:** In case of dormant or in-operative accounts, MFBs may allow credit entries without changing at their own, the dormancy status of such accounts. Debit transactions/ withdrawals shall not be allowed until the account holder requests for activation. **For account activation, the MFB shall conduct biometric verification of the account holder or obtain attested copy of customer's valid identity document, if already not available.** …..
<u>Regulation M-1 Para 14. Enhanced Due Diligence (EDD):</u> It is possible that certain customers/transactions may pose high risk to MFBs. The high risk factors must be defined in the KYC/CDD policy which may include the description of such customers, products, transaction channels and geographic elements. In particular, following shall also be considered for enhanced due diligence; ……..	**<u>Para 14. Enhanced Due Diligence (EDD):</u>** It is possible that certain customers/transactions may pose high risk to MFBs. The high risk factors must be defined in the KYC/CDD policy which may include the description of such customers, products, transaction channels and geographic elements. **MFBs shall apply enhanced due diligence proportionate to the risks.** In particular, following shall also be considered for enhanced due diligence;

[1] SECP Circular No. 16 of 2018 dated August 29, 2018 or any other instruction in this regard

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viii. Customers from jurisdictions which have been identified for inadequate AML/CFT measures by FATF or called for by FATF for taking counter measures;	viii. **Transactions and c**ustomers from **high risk** jurisdictions which have been identified for inadequate AML/CFT measures by FATF or called for by FATF for taking counter measures;
Regulation M-1: Customer Due Diligence (CDD) (Para 14.B.b) b. These accounts should be opened in the name of relevant NGO/NPO/Charities as per title given in constituent documents of the entity. The individuals who are authorized to operate these accounts and members of their governing body should also be subject to **comprehensive** CDD. MFBs should ensure that these persons are not affiliated with any proscribed/ designated entity or person, whether under the same name or a different name.	**Regulation M-1: Customer Due Diligence (CDD) (Para 14.B.b)** b. These accounts should be opened in the name of relevant NGO/NPO/Charities as per title given in constituent documents of the entity. The individuals who are authorized to operate these accounts and **all** members of their governing body should also be subject to CDD **separately**. MFBs should ensure that these persons are not affiliated with any proscribed/ designated entity or person, whether under the same name or a different name.
Regulation M- 1: Customer Due Diligence (CDD) (Para 15.) **15. Asset Side Customers:** MFBs shall make comprehensive assessment of controls on asset products and related customers to ensure effective implementation of due diligence requirements as per their own assessment of materiality and risk without compromising on identity and verification requirements. This shall include monitoring of the customers and related risks on ongoing basis as per standard norms and best practices to mitigate the risks related to such products/ customers.	**Regulation M- 1: Customer Due Diligence (CDD) (Para 15.)** **15. Asset Side Customers: MFBs shall also undertake CDD measures of asset side/ trade finance customers as prescribed in these Regulations and ensure monitoring of such customers with regard to ML/TF/PF risks.**

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Regulation M-1 Para 16. Walk in Customer or Occasional Customer: i. MFBs shall obtain copy of CNIC (regardless of threshold) for online deposits/fund transfers and remittance through instruments such as DD, PO, MT etc. conducted by walk-in customers; ii. MFBs shall obtain CNIC from walk-in customers conducting cash transactions above Rupees 0.5 million whether carried out in a single operation or in multiple operations that appears to be linked. If MFBs have a suspicion of money laundering or terrorist financing they must undertake appropriate CDD measures; and iii. For rest of transactions, identification requirements may be defined above an appropriate limit by MFBs themselves in their KYC/CDD policies.	**Regulation M-1 Para 16. Walk in Customer or Occasional Customer:** **i.** MFBs shall **identify the occasional customers/ walk-in customers and capture their identity document number in the IT system.** **ii. Furthermore, MFBs shall obtain a copy of identity document of the occasional customer/ walk-in customers' and verify the identity using reliable, independent source information, i.e. biometric verification or NADRA Verisys in line with SBP's Frequently Asked Questions (FAQs) on Biometric Implementation in MFBs (Annexure - I);** a. **While issuing remittance instruments e.g. POs, DDs and MTs etc. (regardless of threshold).** b. **Conducting cash transactions of rupees 0.5 million or above, including where the transaction is carried out in a single operation or in several transactions that appear to be linked.**
Regulation M- 1: Customer Due Diligence (CDD) (Para 19.) **19. New Technology:** MFBs shall pay special attention to any threat that may arise from development of new products and new business practices, including new delivery mechanisms, and new or developing technologies, for both new and pre-existing products, that might favor anonymity and take measures, if required, to prevent their use in money laundering and/or terrorist financing schemes. Proper assessment of risks should be	**Regulation M- 1: Customer Due Diligence (CDD) (Para 19.)** **19. New Technology:** MFBs shall pay special attention to any threat that may arise from development of new products and new business practices, including new delivery mechanisms, and new or developing technologies, for both new and pre-existing products, that might favor anonymity and take measures, if required, to prevent their use in money laundering and/or terrorist**/proliferation** financing schemes. Proper assessment of risks should be undertaken prior to the launch or

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undertaken prior to the launch or use of such products, practices and technologies. Measures for managing risks should include specific and effective CDD procedures that apply to non-face-to-face customers. In particular, MFBs should have policies and procedures in place to address anonymity risk associated with non-face-to-face customers / business relations/transactions. These policies and procedures should apply when establishing customer relationship and when conducting ongoing due diligence.	use of such products, practices and technologies. **Moreover, MFBs shall take appropriate measures to manage and mitigate these risks.** Measures for managing risks should include specific and effective CDD procedures that apply to non-face-to-face customers. In particular, MFBs should have policies and procedures in place to address anonymity risk associated with non-face-to-face customers / business relations/transactions. These policies and procedures should apply when establishing customer relationship and when conducting ongoing due diligence.
Regulation M-1 Para 20. Non-Satisfactory KYC / CDD: In case, MFB is not able to satisfactorily complete the required CDD measures, account shall not be opened or any service provided and consideration should be given if the circumstances are suspicious so as to file an STR. If CDD of an existing customer is found unsatisfactory, the relationship should be treated as high risk and reporting of suspicious transaction be considered as per law and circumstances of the case.	**Regulation M-1 Para 20. Non-Satisfactory KYC / CDD:** In case, MFB is not able to satisfactorily complete the required CDD measures, account shall not be opened or any service provided and consideration should be given if the circumstances are suspicious so as to file an STR. If **MFBs are unable to satisfactorily comply with** CDD **measures** of an existing customer is found unsatisfactory, the relationship should be **terminated** and reporting of suspicious transaction be considered as per law and circumstances of the case. **Further, MFBs shall serve a prior notice and record cogent reasons for terminating business relationships in their systems on a case to case basis.**
Regulation M- 1: Customer Due Diligence (CDD) No included in the current regulations.	**New Para** (serial No. 22) **under Regulation M- 1: Customer Due Diligence (CDD)** **22. Prohibition on Reliance on Third Parties for CDD Measures:**

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	MFBs shall not rely on third parties to perform any CDD measures as prescribed in these Regulations.
REGULATION M – 2: Wire Transfers/ Electronic Fund Transfers **1. Responsibility of the Ordering Institution** ….. MFB shall include the following information in the message or payment instruction, which should accompany or remain with the wire transfer throughout the payment chain: a. the name of the originator; b. the originator's account number (or unique reference number which permits traceability of the transaction); c. the originator's address or CNIC/passport number; d. the name of the beneficiary; and e. the beneficiary's address or CNIC/ passport number. ……	**REGULATION M – 2: Wire Transfers/ Electronic Fund Transfers** **1. Responsibility of the Ordering Institution** ….. MFB shall include the following information in the message or payment instruction, which should accompany or remain with the wire transfer throughout the payment chain: a. the name of the originator; b. the originator's account number (or unique reference number which permits traceability of the transaction); c. the originator's address **and identity document** number; d. the name of the beneficiary; and e. the beneficiary's address **and identity document** number. ……
Regulation M - 4: Reporting of Currency/Cash Transactions (CTR) All MFBs shall adhere to the provision of Currency/Cash Transactions Report under the Anti-Money Laundering Act, 2010 and report currency/cash transactions to the Director General of the Financial Monitoring Unit (FMU). The Currency/Cash	**Regulation M - 4: Reporting of Currency/Cash Transactions (CTR)** All MFBs shall adhere to the provision**s** of Currency/Cash Transactions Report under the Anti-Money Laundering Act, 2010 **in the context of money laundering, financing of terrorism or financing of proliferation** and report currency/cash transactions to the Director General of the Financial Monitoring Unit (FMU). The Currency/Cash Transactions

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Transactions Guidance Notes and Reporting Form are available on the official website of FMU.	**regulations,** Guidance Notes and Reporting Form are available on the official website of FMU.
Regulation M - 5: Reporting of Suspicious Transactions (STR) If an MFB suspects or have reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it shall report within seven days its suspicions to the Director General, Financial Monitoring Unit (FMU). The report should be on the format prescribed by FMU. Further, MFBs should file STR to report all attempted or conducted transactions, regardless of the amount of the transaction. ……	**Regulation M - 5: Reporting of Suspicious Transactions (STR)** **MFBs shall comply with the provisions of AML Act, rules and regulations issued there under for reporting suspicious transactions in the context of money laundering, financing of terrorism or financing of proliferation.** **MFBs shall pay special attention to all complex, unusually large transactions, and all unusual patterns of transactions, which have no apparent economic or visible lawful purpose. The background and purpose of such transactions shall, as far as possible, be examined, the findings established in writing, and be available to assist the relevant authorities in inspection and investigation.** **The transactions, which are inconsistent with the history, pattern, or normal operation of the account including through heavy deposits, withdrawals and transfers, shall be viewed with suspicion, be properly investigated and referred to Compliance Officer for possible reporting to FMU under AML Act.** If an MFB suspects or have reasonable grounds to suspect that funds are the proceeds of a criminal activity, or are related to terrorist financing, it shall report within seven days its suspicions to the Director General, Financial Monitoring Unit (FMU). ……

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Regulation M - 7: MFBs' Obligations (Para 1) **1. Internal AML/CFT policies, procedures & controls** Each MFB shall formulate risk based AML/CFT policy duly approved by their Board of Directors and cascade the same down the line to each and every business location and concerned employees for strict compliance. The detailed systems, procedures and controls shall also be developed by MFBs in the light of the policy approved by the board. The policies, procedures and controls shall include, amongst other things, CDD measures, record retention, correspondent banking, handling wire transfers, risk assessment procedures, the detection of unusual and/or suspicious transactions and the obligation to report suspicious transactions etc. While formulating policies, procedures and controls, MFBs shall take into consideration money laundering and financing of terrorism threats that may arise from the use of new or developing technologies, agency agreements and outsourcing agreements especially those having features of anonymity or inconsistency with the spirit of CDD measures.	**Regulation M - 7: MFBs' Obligations (Para 1)** **1. Internal AML/CFT policies, procedures & controls** Each MFB shall formulate risk based AML/CFT policy duly approved by their Board of Directors and cascade the same down the line to each and every business location and concerned employees for strict compliance. The detailed systems, procedures and controls shall also be developed by MFBs in the light of the policy approved by the board. The policies, procedures and controls shall include, amongst other things, CDD measures, record retention, correspondent banking, handling wire transfers, risk assessment procedures, the detection of unusual and/or suspicious transactions and the obligation to report suspicious transactions etc. While formulating policies, procedures and controls, MFBs shall take into consideration money laundering and financing of terrorism **and financing of proliferation** threats that may arise from the use of new or developing technologies, agency agreements and outsourcing agreements especially those having features of anonymity or inconsistency with the spirit of CDD measures. **MFBs should update their internal risk assessment periodically or in case of any major event or in light of the National Risk Assessments (NRA) duly shared by SBP besides other instructions issued from time to time.**

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Regulation M - 7: MFBs' Obligations (Para 2) **2. Utilization of Technology** MFBs shall utilize technological innovations to safeguard themselves from risks of Money Laundering/Terrorist Financing and other related risks. MFBs may therefore embed all KYC/CDD processes in their system and ensure installation of; a. Bio-metric machines at all branches for enabling usage of biometric technology for instant verification of particulars of prospective customers; and b. Transaction Monitoring Systems (TMS) that is capable of producing meaningful alerts based on pre-defined parameters/thresholds, for analysis and possible reporting of suspicious transactions. In this regard, they are required to implement appropriate TMS. The TMS may be customized in line with the size, nature and complexity of MFB's business environment and needs.	**Regulation M - 7: MFBs' Obligations (Para 2)** **2. Utilization of Technology** MFBs shall utilize technological innovations to safeguard themselves from risks of Money Laundering/Terrorist Financing and other related risks. MFBs may therefore embed all KYC/CDD processes in their system and ensure installation of; a. Bio-metric machines at all branches for enabling usage of biometric technology for instant verification of particulars of prospective customers; and b. Transaction Monitoring Systems (TMS) that is capable of producing meaningful alerts based on pre-defined parameters/thresholds, for analysis and possible reporting of suspicious transactions. In this regard, they are required to implement appropriate TMS. The TMS may be customized in line with the size, nature and complexity of MFB's business environment and needs. **c. Technology solutions for effective Targeted Financial Sanctions (TFS) monitoring and reporting of suspicious transactions.**
Regulation M - 7: MFBs' Obligations (Para 3) **3. Compliance Function** MFBs shall have in place an appropriate setup to ensure AML/CFT compliance, including at least, the appointment of a 'Key	**Regulation M - 7: MFBs' Obligations (Para 3)** **3. Compliance Function** MFBs shall have in place an appropriate setup to ensure AML/CFT compliance, including at least, the appointment of a 'Key Executive'

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Executive' officer as the compliance officer. A team of designated officers (regional/area/branch managers etc.) shall assist the compliance officer. Moreover, compliance and AML/ CFT related responsibilities should be included as their Key Performance Indicators (KPIs). Further, ML/TF risks should also be included in KPIs of officer(s) responsible for Enterprise Risk Management and Operational Risk Management functions; MFBs shall ensure that: a) Besides oversight by the Board, monitoring of compliance and AML/CFT function is assigned as term of reference to one of the Management Committees responsible for risk and control; g) Regular assessment is undertaken to evaluate: I. Adequacy of compliance function's working strength; and II. Deficiency if any, observed.	officer as the compliance officer. A team of designated officers (regional/area/branch managers etc.) shall assist the compliance officer. Moreover, compliance and AML/ CFT related responsibilities should be included as their Key Performance Indicators (KPIs). Further, ML/TF risks should also be included in KPIs of officer(s) responsible for Enterprise Risk Management and Operational Risk Management functions; MFBs shall ensure that: a) Besides **oversight and monitoring of ML/TF/PF risks posed to the entity, the Board shall also be responsible for ensuring that entity has implemented effective AML/CFT controls (preventive measures) including Targeted Financial Sanctions (TFS) related to TF & PF, STR/CTR. The board shall delegate oversight and monitoring function to any of the board sub-committees preferably Board Risk Management Committee (BRMC) or Board Audit Committee (BAC) and Compliance Risk Management Committee (CRMC) which has been constituted in compliance of SBP guidance on Compliance Risk Management**; g) Regular assessment is undertaken to evaluate: I. Adequacy of compliance function's working strength; and II. Deficiency, if any, observed **should be addressed on priority basis**.
Regulation M - 7: MFBs' Obligations (Para 5) **5. Employee Due Diligence** MFBs shall develop and implement a comprehensive employee due diligence policy and procedure to be implemented/ carried out	**Regulation M - 7: MFBs' Obligations (Para 5)** **5. Employee Due Diligence** MFBs shall develop and implement a comprehensive employee due diligence policy and procedure to be implemented/ carried out at the

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at the time of hiring all employees; permanent, contractual, or through outsourcing. This shall include but not be limited to verification of antecedents and screening procedures to verify that person being inducted/hired has a clean history. Moreover, employees hired on a temporary/contractual basis, or through an outsourcing arrangement shall not be posted to work on critical areas, especially AML/CFT related functions.	time of hiring all employees; permanent, contractual, or through outsourcing **to ensure high standards**. This shall include but not be limited to verification of antecedents and screening procedures to verify that person being inducted/hired has a clean history. Moreover, employees hired on a temporary/contractual basis, or through an outsourcing arrangement shall not be posted to work on critical areas, especially AML/CFT related functions **and the reporting of suspicious transactions/currency transactions in the context of money laundering, financing of terrorism and financing of proliferation.**
Regulation M - 7: MFBs' Obligations (Para 6) **6. Training** MFBs shall chalk out and implement suitable training programs for all relevant employees on an annual basis, in order to effectively implement the regulatory requirements besides MFBs' AML/ CFT related internal policies, procedures and controls. AML/CFT training combined with optimum use of technology is becoming inevitable due to ever changing nature of methods and trends in illicit activities, thus all relevant employees should be trained over the Transaction Monitoring System. It is also important to test the capability and knowledge of the relevant staff on periodic basis. For the purpose, MFB may either purchase or internally develop comprehensive AML/CFT Computer-based/Online Training Programs and Tests under a comprehensive plan with clear timelines for its implementation.	**Regulation M - 7: MFBs' Obligations (Para 6)** **6. Training** MFBs shall chalk out and implement suitable training programs for all relevant employees on an annual basis, in order to effectively implement the regulatory requirements besides MFBs' AML/ CFT**/ Counter Proliferation Financing/ Targeted Financial Sanctions (TFS)** related internal policies, procedures and controls. AML/CFT training combined with optimum use of technology is becoming inevitable due to ever changing nature of methods and trends in illicit activities, thus **MFBs shall implement programs covering ML/TF risks and the AML/CFT/TFS obligations including the results of Risk Assessments conducted by FMU or any other Government Agencies. The MFB shall also share its own risk assessment results with its branch staff to keep them more vigilant and alert when dealing with customers, products, channels and geographies.**

<table>
<tr><th>Existing Regulations /Instructions</th><th>Revised Draft of Proposed Regulations/Instructions</th></tr>
<tr><td></td><td>Steps should be taken to develop knowledge and skills of all relevant employees over the Transaction Monitoring System and other relevant IT Systems for reporting of suspicious transactions/currency transactions and effective monitoring of TFS.

It is also important to test the capability and knowledge of the relevant staff on periodic basis. For the purpose, MFB may either purchase or internally develop comprehensive AML/CFT Computer-based/Online Training Programs and Tests under a comprehensive plan with clear timelines for its implementation.</td></tr>
<tr><td>Annexure – H

(Documents to be obtained from Various Types of Customers/Account Holders)</td><td>Annexure H

(Documents to be obtained from Various Types of Customers/Account Holders)</td></tr>
<tr><td><table><tr><td>Individual</td><td>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</td></tr></table></td><td><table><tr><td>Individual</td><td>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) Form-B/Juvenile card issued by NADRA to children under the age of 18 years.
(IV) Pakistan Origin Card (POC) issued by NADRA.
(V) Alien Registration Card (ARC) issued by</td></tr></table></td></tr>
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Existing Regulations /Instructions		Revised Draft of Proposed Regulations/Instructions	
	currency account only). (V) Passport; having valid visa on it or any other proof of legal stay along with passport (foreign national individuals only).		National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only). **(VI) Valid Proof of Registration (POR) Card issued by NADRA** Passport; having valid visa on it or any other proof of legal stay along with passport (foreign national individuals only).
Trust, Clubs, Societies and Association etc.	(i) Certified copies of: (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 following: (a) authorized person(s) (b) members of Governing Body/Board of Trustees /Executive Committee, if it is	**Trust, Clubs, Societies and Association etc.**	(i) Certified copies of: (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 following: (a) Authorized person(s) (b) Members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body. **(c) Settlor, the trustee(s), the**

Existing Regulations /Instructions	Revised Draft of Proposed Regulations/Instructions
ultimate governing body. (iv) An undertaking signed by all the authorized persons on behalf of the institution mentioning that when any change takes place in the persons authorized to operate on the account, the banker will be informed immediately.	**protector (if any), the beneficiaries or class of beneficiaries.** (iv) An undertaking signed by all the authorized persons on behalf of the institution mentioning that when any change takes place in the persons authorized to operate on the account, the banker will be informed immediately.
Notes: 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 MFB 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 banking relationship, MFBs 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, MFBs 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.	**Notes:** IV. In case of expired **identity document**, account may be opened on the basis of attested copies of NADRA receipt/token and expired **identity document** subject to condition that MFB shall obtain copy of renewed **identity document** of such customer within 03 months of the opening of account. For **identity document**s which expire during the course of the customer's banking relationship, MFBs shall design/ update their systems which can generate alerts about the expiry of **identity document**s at least 01 month before actual date of expiry and shall continue to take reasonable measures to immediately obtain copies of renewed **identity document**s, whenever expired. In this regard, MFBs are also permitted to utilize NADRA Verisys reports of renewed **identity document**s and retain copies in lieu of valid copy of **identity document**s. However, **where necessary,** obtaining copy of renewed **identity document** as per existing instructions will continue to be permissible.

Annexure – I

BIOMETRIC IMPLEMENTATION IN MFBs - FREQUENTLY ASKED QUESTIONS (FAQs)

1) When did SBP make it mandatory to install biometric machines in MFB branches?

SBP vide AC&MFD Circular No. 02 0f 2017 dated June 19, 2017 (http://www.sbp.org.pk/acd/2017/C2.htm) advised MFBs to make use of biometric technology at the branch level for verification of particulars of prospective customers.

2) What is the purpose of biometric verification in MFBs?

The purpose of biometric verification is facilitation of customers by instant verification of their particulars through an advanced technological verification tool.

3) Is the requirement of biometric verification limited to individual customers only?

No, the AC&MFD Circular No. 02 0f 2017 does not limit the scope of biometric verification to individual customers only.

4) Is the requirement of biometric verification applicable to entity accounts?

Yes, the AML/CFT Regulations require verification of identities of the customers (natural persons) and in case of legal persons, identities of their natural persons from relevant authorities or where necessary using other reliable/ independent sources.

5) For entity accounts, is biometric verification required only for authorized signatories, or for all members of the governing body/ Board of Directors?
In case of legal entities, the verification using biometric mode may only be applied to persons who are authorized to open and operate the account.

6) Will NADRA Verisys still be required for customers who are verified through biometric? No, verification through biometric mode is sufficient, provided that the proof of verification is properly maintained.

7) Despite installation of biometric technology at MFB branches, will NADRA Verisys system still be required at MFBs? If yes, why?
Yes, the verification of identity of customers using NADRA Verisys shall continue to be permissible in cases where verification cannot be done through biometric due to genuine reasons or technical issues.

8) What are the genuine reasons or technical issues referred in FAQ No. 7) above?
Following scenarios may be considered; provided MFB is satisfied and proper reason/ proof is recorded/ retained by the MFB.

a) NADRA system/data/connectivity or technical issue beyond a reasonable time

b) NADRA does not have biometric records of prospective customers

c) Customers whose eligible identity documents are other than biometrically verifiable documents, e.g. Passport, Alien Registration Card, etc.

d) Customer's permanent physical disability, e.g. limbs disability, uneven texture/ erased / unclear fingerprints, etc.

e) Customer's temporary issue e.g. wounded/ bandaged hands/ mehndi, etc.

9) Will Biometric verification still be required for customers who are verified through NADRA Verisys?

Yes, only in case of temporary biometric connectivity or customer's related issue as highlighted in FAQ No. 8. In this regard, biometric verification should be done once the issue is resolved, subject to reasonable time limit to be defined by institutions in their internal policies.

10) Can biometric verification be conducted offsite or only in MFB premises?

It is discretion of the MFB to use mobile devices for verification of customers outside the MFB premises while following regulatory requirements. However, no exemption may be presumed from any of the requirements laid down under relevant law, AML/CFT Regulations/ guidelines and it should be ensured that accounts will ultimately be opened in MFB branches and initial/ subsequent deposits will only be received in MFB branches.

11) Can certain low risk accounts be exempted from the requirement of biometric verification?

No, unless explicitly allowed in special circumstances by SBP.

12) Is biometric verification exempted under bulk account opening propositions e.g. payroll accounts, etc?

No, unless explicitly allowed in special circumstances by SBP.

13) What minimum information should be sufficient in biometric verification?

The verification using biometric, at the minimum, should have particulars of prospective customers verified by MFBs through NADRA Verisys. This should include (i) individual's name; (ii) father's name; (iii) date of birth; (iv) mother's maiden name or individual's place of birth; (v) identity card number; (vi) identity card expiry date; (vii) permanent & current address; and (viii) photograph.

14) Is any activity permitted in MFB account prior to biometric verification of customer?

In terms of Regulation M 1 Customer Due Diligence (Para 6), it is permitted to accept initial deposit at the time of submission of necessary documents by their prospective customers, prior to verification, and provisionally open accounts subject to certain controls. However, there should be no transaction activity in the account except initial deposit prior to completion of verification of identity of the customer.

15) Is there any specification of biometric device to be used for biometric verification of customers?

No, the selection or specification of biometric device is decided by MFBs in consultation with NADRA as per their system functionality.

16) Is the requirement of biometric verification applicable to all MFBs/ customers irrespective of whether the MFB has centralized or de-centralized process of account opening?

Yes, the requirement of biometric is applicable irrespective of process of account opening.

17) What information is important related to acceptable fingerprint templates?

As per NADRA's technical specifications, following information is important:

a) Finger prints should be acquired at 500 dpi before conversion to any template format.

b) Maximum information of fingerprint should be acquired

c) Fingerprint should be placed flat with maximum contact between scanner lens and skin.

d) Image lens should be clean and without any moisture for better biometric acquisition

e) Fingerprint template should be one of following:

- ANSI
- ISO_19794_2
- SAGEM_PKMAT
- SAGEM_PKCOMPV2
- SAGEM_CFV
- RAW_IMAGE

18) What specific measures can be taken for biometric verification of existing customers presently outside Pakistan?

In this connection. MFBs are advised to adhere to the following instructions;

	Type of Customer	Treatment
a)	**Non-resident Pakistanis (NRPs)** *As defined in Income Tax Ordinance, 2001 – Chapter 5, Division II, Section 82*	For customers who fall under the definition of NRP, the MFB may obtain a signed undertaking from the customer invariably containing the following: • Customer's NRP status along with proof (i.e. copy of valid passport, visa, exit stamp, resident permit, etc.) • Copy of valid identity document. • Account number(s) of the customer's account(s) maintained with the bank as per customer record • Undertaking by the customer to inform the bank of any change in residency status The MFB, after verification of the customer's signature from its record, shall accordingly update/ reflect the NRP status in the customer profile. For such customers, as an alternative to biometric verification, the MFB may conduct fresh NADRA Verisys using the information provided by the customer.
b)	**Resident Pakistanis temporarily outside Pakistan**	For customers who do not qualify under the definition of NRP, but are currently/ temporarily outside Pakistan for any reason, the MFB may obtain reasonable evidence/ proof from the customer regarding his/ her absence from the country (i.e. copy of valid passport, visa, exit stamp, resident permit, etc.) and the expected date of return. For such customers, as an alternate to biometric verification, the MFB may conduct fresh NADRA Verisys using the information provided by the customer. The MFB may retain the NADRA Verisys in place of biometric verification until the customer returns, subject to reasonable time limit (not more than six months) to be defined by MFB. Biometric verification of such customers shall be done immediately upon the customer's return to the country.
c)	**Joint Accounts** where one account holder is outside Pakistan (NRP/ temporarily)	For joint account holders, treatment of biometric verification should be done according to the status of respective individual. Biometric verification should be conducted for the joint account holder who is resident Pakistani, while for other joint account holders, the relevant procedure described at (a) and (b) above should be adopted.

MFBs may operate accounts on the basis of NADRA Verisys in genuine cases (as provided in FAQ No. 8), provided MFBs are satisfied and proper reason/ proof is recorded/ retained by the MFB. For such cases, in the absence of biometric verification, MFB may ensure that requisite identification document has been obtained, marked as 'original seen' by their staff and verified through NADRA Verisys. Moreover an undertaking should be obtained from the customer declaring that the particulars provided to the MFB are correct and that their staff has verified the same. The declaration should be endorsed by the Branch Manager and should be available in the MFB's centralized record.

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