



**ANTI-MONEY LAUNDERING,
COMBATING THE FINANCING OF TERRORISM &
COUNTERING PROLIFERATION FINANCING
(AML/ CFT/ CPF) REGULATIONS
FOR
STATE BANK OF PAKISTAN'S REGULATED ENTITIES
(SBP-REs)**

(Updated up to January 27, 2021)

State Bank of Pakistan

Preamble:

State Bank of Pakistan (SBP) has issued the Anti-Money Laundering, Combating the Financing of Terrorism & Countering Proliferation Financing (AML/ CFT / CPF) Regulations for SBP's Regulated Entities (REs) under powers conferred to it under Section 6A (2) of the Anti-Money Laundering Act, 2010. Accordingly, any violation of the aforesaid AML/ CFT/ CPF Regulations shall attract penal as well as administrative actions under the applicable laws/rules/regulations, including the AML/ CFT Sanctions Rules, 2020.

SBP REs shall appropriately comply with the requirements stipulated in these Regulations considering their size, nature of business and complexities of operations; through proper documentation of the scope and applicability of requirements envisaged in these Regulations.

SBP may issue enabling circulars and guidance as an addendum to these Regulations. Further, amendments shall be made in these Regulations through issuance of Circulars/ Circular letters; therefore, these Regulations on a specific date may not reflect the latest position. In case of any ambiguity, users may refer to the Circulars/ Circular Letters on the relevant subject(s), which are available on SBP's website (www.sbp.org.pk).

TABLE OF CONTENTS		Page No.
Part A	Acronyms	1
Part B	Definitions	3
Part C	Regulations	9
Regulation-1	Risk Based Approach to AML/ CFT	9
Regulation-2	Customer Due Diligence (CDD)	10
Regulation-3	Reliance on Third Party Financial Institutions for CDD Measures	16
Regulation-4	Targeted Financial Sanctions under UNSC Act, 1948 and ATA, 1997	17
Regulation-5	Politically Exposed Persons (PEPs)	19
Regulation-6	NGO/ NPO/ Charity/ Trust Accounts	20
Regulation-7	Reporting of Transactions (STRs/ CTRs)	21
Regulation-8	Record Keeping	21
Regulation-9	Correspondent Banking	22
Regulation-10	Money Value Transfer Services (MVTs) / Exchange Companies	23
Regulation-11	Wire Transfer/ Fund Transfer	24
Regulation-12	New Technologies	26
Regulation-13	Internal Controls	27
Regulation-14	Counter Measures For High Risk Jurisdictions	30
Regulation-15	Regulation and Supervision	31
Annexure I	List of Information Required For Customer Identity	32
Annexure II	Minimum Documents to be Obtained for Identification of Customer/ Occasional Customer	34

Part A
ACRONYMS

AML/ CFT/ CPF	Anti-Money Laundering/ Combating the Financing of Terrorism/ Countering Proliferation Financing
ARC	Alien Registration Card
ATA	The Anti-Terrorism Act, 1997
ATM	Automated Teller Machine
BCO	The Banking Companies Ordinance, 1962
BIS	Bank of International Settlements
BoD	Board of Directors
CDD	Customer Due Diligence
CNIC	Computerized National Identity Card
CRP	Customer Risk Profiling
CTR	Currency Transaction Report
DFI	Development Finance Institution
DP	Designated Person
ECs/ ECs-B	Exchange Companies / Exchange Companies of 'B' Category
EDD	Enhanced Due Diligence
EMI	Electronic Money Institutions
FATF	Financial Action Task Force
FERA	Foreign Exchange Regulation Act, 1947
FIA	Federal Investigation Agency
FMU	Financial Monitoring Unit
FPT	Fit and Proper Test
FSRBs	FATF Style Regional Bodies
IRAR	Internal Risk Assessment Report
KYC	Know Your Customer
LEAs	Law Enforcement Agencies
MFBs	Microfinance Banks
MFIO	The Microfinance Institutions Ordinance, 2001
ML/ TF/ PF	Money Laundering/ Terrorism Financing / Proliferation Financing
MOFA	Ministry of Foreign Affairs
MVTS	Money Value Transfer Service
NACTA	National Counter Terrorism Authority
NADRA	National Database & Registration Authority
NGOs/ NPOs	Non-government Organizations / Non-profit Organizations
NICOP	National Identity Card for Overseas Pakistanis

NTN	National Tax Number
PEP	Politically Exposed Person
PF	Proliferation Financing
POC	Pakistan Origin Card
POR	Proof of Registration Card for Afghan Refugees
PP	Proscribed Person
PS&EFT Act	The Payment Systems and Electronic Fund Transfers Act, 2007
PSO/ PSP	Payment Service Operator and Payment Service Provider
Regtechs	Regulation Technology (Systems for Ensuring Compliance of Regulations i.e. Risk and Controls in area of AML/ CFT/ CPF)
REs	Regulated Entities
SBP	State Bank of Pakistan
SDD	Simplified Due Diligence
SECP	Securities & Exchange Commission of Pakistan
SNIC	Smart National Identity Card
SNICOP	Smart National Identity Card for Overseas Pakistanis
SOPs	Standard Operating Procedures
STR	Suspicious Transaction Report
Suptechs	Supervisory Technology (Systems for Ensuring Compliance of Supervisory Needs i.e. Risk and Controls in area of AML/ CFT/ CPF)
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
TMS	Transaction Monitoring System
TPSP	Third Party Payment Service Provider (TPSP)
UNSC	United Nations Security Council
UNSC Act	The United Nations Security Council Act, 1948

Part B
DEFINITIONS

For the purpose of these Regulations:

- 1) "Act" means the Anti-Money Laundering Act 2010 as updated from time to time.
- 2) "Bank" or "Banking Company" shall have the same meaning as under section 5 of the BCO.
- 3) "Banking Business" shall include the businesses stipulated under section 7 of BCO.
- 4) "Banking" means the accepting, for the purpose of lending or investment, of deposits of money from the public, repayable on demand or otherwise, and withdrawable by cheque, draft, order or otherwise.
- 5) "Beneficial Owner" shall have the same meaning as under section 2(iv) of the Act.
- 6) "Beneficiary Institution" means the financial institution that receives the funds on behalf of the wire transfer or fund transfer beneficiary.
- 7) "Beneficiary" means the person to whom or for whose benefit the funds are sent or deposited in bank or person who has beneficial interest in financial transaction to be executed.
- 8) "Biometric Verification System" or "BVS" means the technology enabled system (verifiable from NADRA or the relevant Government authority) that allows financial institutions to obtain biometrics of the customers at the time of opening of account or conducting the transactions.
- 9) "Branch" or "Branch Office" means any branch or branch office or other place of business of an RE, authorized in terms of respective laws administered by SBP.
- 10) "Business Relationship" shall have the same meaning as under section 2(v) of the Act.
- 11) "Class of Beneficiaries" for beneficiary(ies) of trusts that are designated by characteristics or by class, financial institutions shall 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.
- 12) "Close associate of a PEP" means –
 - a. an individual known to have joint beneficial ownership of a legal person or a legal arrangement or any other close business relations with a PEP;
 - b. any individual(s) who have beneficial ownership of a legal person or a legal arrangement which is known to have been set up for the benefit of a PEP;
 - c. an individual who is reasonably known to be closely connected with the PEP for any other reason, including socially or professionally.

- 13) "Company" shall have the same meaning as under section 2(vii) of the Act.
- 14) "Competent Authorities" shall have the same meaning as under section 2(viii) of the Act.
- 15) "Control" in relation to a legal person, means the power to exercise a controlling influence over the management or the policies of the undertaking, and, in relation to shares, means the power to exercise a controlling influence over the voting power attached to such shares.
- 16) "Corporate Group" shall have the same meaning as under section 2(ix) of the Act.
- 17) "Correspondent Bank" means the banks in Pakistan, which provide correspondent banking services to banks or financial institution situated abroad and vice versa;
- 18) "Correspondent Banking" means provision of banking services by one bank (correspondent) to another bank (respondent) including but not limited to opening and maintaining accounts in different currencies, fund transfers, cheque clearing, payable through accounts, foreign exchanges services or similar other banking services.
- 19) "Cross-Border Wire Transfer" means a wire transfer where the ordering institution and the beneficiary institution are located in different countries or jurisdictions;
- 20) "Currency Transaction Report (CTR)" shall have the same meaning as under section 2(xi) of the Act.
- 21) "Customer" means a person (natural & legal) having relationship with SBP REs and availing financial services from SBP REs which includes but not limited to holding of deposit/ deposit certificate/ or any instrument representing deposit/ placing of money with a SBP RE, availing other financial services, locker facility, safe deposit facility, or custodial services.
- 22) "Deposit" shall include the deposits under Section 26A of BCO.
- 23) "Designated Person (DP)" individual or entity designated under UNSC Act.
- 24) "Domestic Wire Transfer" means any wire transfer where the originator and beneficiary institutions are located in Pakistan regardless the system used to effect such wire transfer is located in another jurisdiction.
- 25) "Dormant or In-Operative Account" means the account in which no transaction has taken place during the preceding one year.
- 26) "Electronic Money Institution (EMI)" shall have the same meaning as under Section 2(1)(u) of PS&EFT Act.
- 27) "Exchange Companies" shall have the same meaning as under Sections 3, 3A and 3 AA of the FERA. SBP issues authorization/ license to REs known as ECs/ ECs-B to deal in foreign exchange including foreign currency, foreign currency notes, transfers, coins, postal notes, money orders, bank drafts, and traveler's cheques to individuals only i.e. to natural persons. Since ECs/ ECs-B don't deal with legal

person and legal arrangements and don't maintain business relationship (accounts) therefore those requirements in these regulations which pertains to legal person and legal arrangement and business relationships will not be applicable on them.

- 28) "Family member of a PEP" includes –
- (a) spouse of the PEP; and
 - (b) lineal descendants and ascendants of the PEP and siblings of PEP.
- 29) "FATF Recommendations" mean the Recommendations of Financial Action Task Force as amended from time to time.
- 30) "Financial Institution" shall have the same meaning as under Section 2(xiv) of the Act.
- 31) "FMU" means the Financial Monitoring Unit established under Section 6 of the Act;
- 32) "Foreign Banking Company" means a banking company, not incorporated in Pakistan, which has a branch or branches doing banking business in Pakistan under a license issued by SBP in this behalf.
- 33) "Fund Transfer/ Wire Transfer" means any transaction carried out by financial institutions on behalf of originator person by way of electronic means or otherwise to make an amount of money available to beneficiary person at another beneficiary institution, irrespective of whether the originator and the beneficiary are the same person.
- 34) "Identity Document" means the following documents for identification of natural persons as applicable:
- (a) Valid CNIC/ SNIC/ NICOP/ SNICOP for Pakistani citizens;
 - (b) Valid Passport for foreign citizens;
 - (c) Valid POC for persons of Pakistani origin;
 - (d) Valid ARC for registered Aliens in Pakistan;
 - (e) Valid POR Card for Afghan refugees; and
 - (f) Valid Form-B/ Juvenile Card for Pakistani citizens who are minors.
- 35) "Intermediary Institution" is an intermediary in the wire transfer payment chain; that receives and transmits a wire transfer on behalf of the ordering institution and the beneficiary institution, or another intermediary institution.
- 36) "Microfinance Bank (MFB)" shall have the same meaning as under Section 2(ia) of MFIO.
- 37) "Monetary Threshold" expressed in Pakistani Rupees includes a reference to the equivalent amount expressed in any other currency.
- 38) "Money Laundering (ML)" shall have the same meaning as under Section 2 of the Act.

- 39) “Non-Face to Face Transactions or business relationship” Non-face-to-face interactions are considered to occur remotely – meaning the parties are not in the same physical location and conduct activities by digital or other non-physically-present means, such as mail or telephone or internet.
- 40) “Numbered Account” means account where the names of the customer and beneficial owner are known to the bank but are substituted by an account number or code name in subsequent documentation.
- 41) “Occasional Customer” (also called walk in customer) means the person conducting occasional transactions and is not a permanent customer; not having account/ permanent customer relationship with SBP REs. For those SBP REs which do not maintain permanent customer relationship/ customer accounts, every customer would be treated as occasional or walk in customer. Occasional/ Walk in customers may have frequent visit for execution of transaction on counter of SBP REs.
- 42) “Occasional Transactions” shall have the same meaning as under Section 2 (xxii) of the Act.
- 43) “Online Transaction” means deposit or withdrawal of cash, fund transfers, payments against goods and services, etc. using different branches of SBP REs through electronic means.
- 44) “Ordering Institution” means the financial institution that initiates a wire transfer on the instructions of the wire transfer originator for transferring the funds.
- 45) “Originator” means the person who allows or places the order to initiate a fund transfer/ wire transfer or an online transaction.
- 46) “Outsourcing” means use of a third party (affiliated or un-affiliated) to perform activities, functions or processes normally to save money, time and/ or use the skills/ technology of another entity on a continuing basis that would normally be undertaken by SBP REs, now or in the future. However, it does not cover consultancy services, purchase contracts for tangible/ intangible items, for example, contracts to purchase standardized products such as furniture, Software/ IT solutions, ATM etc.
- 47) “Payable-through Account” means an account maintained at the correspondent bank by the respondent bank which is accessible directly by a third party to affect transactions on its own (respondent bank’s) behalf.
- 48) “Payment Services” mean the services that enable the customers to make payments for goods and services, bill payments, fund transfers, cash deposit and withdrawal and any other service endorsed by SBP from time to time.
- 49) “Payment System” shall have the same meaning as under Section 2(1)(zd) of PS&EFT Act.

- 50) "Politically Exposed Person (PEP)" means an individual who is or has been entrusted with a prominent public function either domestically or by a foreign country, or in an international organization and includes but is not limited to:
- (a) for foreign PEPs, Heads of State or of government, senior politicians, senior government officials, judicial or military officials, senior executives of state-owned corporations and important political party officials;
 - (b) for domestic PEPs, Heads of State or of government, senior politicians, senior government officials, judicial or military officials, senior executives of state-owned corporations, important political party officials;
 - (c) for international organization PEPs, members of senior management or individuals who have been entrusted with equivalent functions; and
 - (d) Provided that middle ranking or more junior individuals in the above referred categories are not included in the definition of PEPs.
- 51) "Prescribed" means prescribed under applicable rules, circulars, directions, orders or bye-laws.
- 52) "Proscribed Person (PP)" means an individual or entity proscribed under ATA.
- 53) "PSOs/ PSPs" mean the same as defined in the Rules for PSOs/ PSPs issued and revised by SBP from time to time.
- 54) "Regulated Entities (REs)" mean financial institutions licensed/ authorized and regulated by the SBP under any law administered by SBP, and includes:
- (a) Banks;
 - (b) Development Finance Institutions (DFIs);
 - (c) Microfinance Banks (MFBs);
 - (d) Exchange Companies (ECs)/ Exchange Companies of 'B' Category (ECs-B);
 - (e) Payment Systems Operators (PSOs);
 - (f) Payment Service Providers (PSPs);
 - (g) Electronic Money Institutions (EMIs); and
 - (h) Third Party Payment Service Providers (TPSPs).
- 55) "Regulations" means the AML/CFT/CPF Regulations for SBP REs
- 56) "Respondent Bank" means the bank or financial institution outside Pakistan to whom correspondent banking services in Pakistan are provided and vice versa.
- 57) "Senior Management" means chief executive officer, managing director, deputy managing director, chief operating officer, company secretary, chief financial officer, chief compliance officer, chief regulatory officer and any holder of such positions by whatever name called.
- 58) "Settlor" are natural or legal persons who transfer ownership of their assets to trustees by means of a trust deed or similar arrangement.

- 59) "Shell Bank" means a bank that has no physical presence (mind and management) in the country in which it is incorporated and licensed, and which is unaffiliated with a regulated financial group that is subject to effective consolidated supervision.
- 60) "State Bank of Pakistan (SBP)" means SBP established under Section 3 of the State Bank of Pakistan Act, 1956 (XXXIII of 1956).
- 61) "Third Party Payment Service Provider (TPSP)" shall have the same meaning as in SBP's Regulations for Mobile Banking Interoperability, updated from time to time.
- 62) "Transfer" means sale, lease, purchase, mortgage, pledge, gift, loan or any other form of transfer of right, title, possession or lien.
- 63) "Trust" means an obligation annexed to the ownership of property and arising out of the confidence reposed in and accepted by the owner or declared and accepted by him for the benefit of beneficiary.
- 64) "Trustee" means any person who accepts the confidence of the author of the trust to the benefit of the beneficiary.
- 65) "Ultimate Effective Control" or "Ultimately Owns or Controls" means situations in which ownership/ control is exercised through a chain of ownership or by means of control other than direct control.
- 66) Other terms used in these regulations but not defined here, shall have the same meaning as ascribed to them in the Act. However, if not defined in the Act, shall have the meaning ascribed to them in the respective laws/ regulations/ rules/ circulars governing the subject.

Part C
REGULATIONS

REGULATION - 1

RISK BASED APPROACH TO AML/ CFT

- 1) SBP REs shall comply with these Regulations and other instructions issued from time to time by SBP on risk based approach to AML/ CFT.
- 2) In order to document the identified ML/ TF/ PF risks, SBP REs shall ensure an entity level Internal Risk Assessment Report (IRAR). IRAR shall cover ML/ TF/ PF risks including Transnational TF risks and other emerging risks to and from SBP REs. IRAR shall identify, assess, and understand ML/ TF/ PF risks at entity level for customers, products, services, delivery channels, technologies, and their different categories of employees etc.
- 3) IRAR shall take into account results of National Risk Assessment (NRA) shared with SBP REs, major international/ domestic financial crimes and terrorism incidents that have probability of posing ML/ TF/ PF risks to the entity itself, to other SBP REs and to the Pakistan's financial sector. Further, feedback from SBP, FMU, LEAs, and other related stakeholders should be taken into account while conducting Internal Risk Assessment.
- 4) The IRAR shall assess effectiveness of existing AML/ CFT/ CPF policies/ controls/ obligations/ preventive measures including STR/ CTR and TFS etc.
- 5) The IRAR shall be used for evaluating residual ML/ TF/ PF risks about which SBP REs have to take decisions i.e. on-boarding of customers, allowing execution of financial transactions, provision of financial service, launching of product, use of technology, and initiating business and operation in particular geographical location, etc.
- 6) SBP REs shall formulate policy for application of SDD, CDD and EDD in light of levels of ML/ TF/ PF risks identified as low, medium, or high in their IRAR, and as prescribed by SBP from time to time.
- 7) SBP REs shall ensure that IRAR is a dynamic and up-to-date document, by periodically updating their IRAR when circumstances change or relevant new threats emerge. Further, in case the NRA is updated at national level, SBP REs shall ensure updating their IRAR in light of the updated NRA. These requirements shall be clearly stated by the SBP REs in their own AML/ CFT/ CPF policies duly

approved by their BoD. The updated IRAR shall be provided to any department of SBP and SBP's inspection teams as and when required.

- 8) IRAR shall be presented to the BoD for approval. It shall include recommendations for the BoD along with a time bound action plan for mitigation of ML/ TF/ PF risks and ensuring effective AML/ CFT/ CPF policies/ procedures/ controls/ obligations/ preventive measures including but not limited to STR/ CTR and TFS. Further, the recommendations in IRAR should cover measures for improvement in understanding of ML/ TF/ PF risks of employees, senior management and BoD, and adequacy of resources i.e. systems and human resource etc.
- 9) SBP REs shall develop AML/ CFT/ CPF policies/ procedures/ controls/ obligations/ preventive measures considering their size, nature of business and complexities of operations.
- 10) SBP REs shall ensure adequate monitoring mechanism to assess ML/ TF/ PF risks and adequacy of AML/ CFT/ CPF controls including STR/ CTR and TFS through internal audit, transaction monitoring and name screening etc.
- 11) The policies/ controls/ procedures/ preventive measures shall be developed/ updated/ implemented proportionate to level of ML/ TF/ PF risks as evaluated in IRAR.
- 12) The policies shall be approved by BoD and controls/ procedures/ preventive measures shall be approved by senior management.
- 13) The ultimate responsibility of ensuring effective AML/ CFT/ CPF controls lies on BoD. Therefore, BoD shall ensure adequate, reliable, periodic management information system, from senior management, for ensuring effective oversight, monitoring and accountability.

REGULATION - 2

CUSTOMER DUE DILIGENCE (CDD)

- 1) SBP REs shall, at minimum, conduct CDD of their customers/ occasional customers in circumstances and matters set out in section 7A (1) of the Act.
 - (a) For the purposes of section 7A (1) (b) of the Act, SBP REs shall conduct CDD in respect of every occasional customer.
- 2) SBP REs shall apply CDD measures as per section 7A (2) of the Act.

- 3) For identification of customer/ occasional customer, at the minimum, SBP REs shall obtain information mentioned in Annexure-I.
- 4) For purposes of verification of identity of the customer/ occasional customer, at the minimum, SBP REs shall obtain the documents mentioned in Annexure-II.
- 5) For ensuring verification of documents and information obtained for CDD purposes, SBP REs shall refer the source from which the document or information originates (e.g. NADRA, etc.) or use reliable and independent document, data or source as prescribed in Annexure-I and Annexure-II.
- 6) While complying with CDD requirements given in the Act and in these Regulations, SBP REs shall ensure:
 - (a) Compliance as per the relevance of the requirement with their business & operational model, nature & types of customers they deal with, features of financial services they offer, and level of risk posed by geographical location in which they operate.
 - (b) Compliance with minimum standards prescribed by SBP from time to time with regard to data privacy & protection of customer's information.
- 7) Where the customer/ occasional customer is represented by an authorized agent or representative, SBP REs shall:
 - (a) Identify every person who acts on behalf of the customer/ occasional customer,
 - (b) Verify the identity of that person using reliable and independent documents, data or information as set out in Annexure-I and Annexure-II; and
 - (c) Verify the authority of that person to act on behalf of the customer/ occasional customer.
- 8) SBP REs shall identify the beneficial owner/s and take reasonable measures to verify the identity of the beneficial owner/s by using reliable and independent document, data or sources of information as set out in Annexure-I and Annexure-II such that the SBP RE is satisfied that it knows who the beneficial owner is.
- 9) (i) For customers that are legal persons or legal arrangements, SBP REs shall identify the customer and verify its identity by obtaining the following information in addition to the information required in Annexure-I and Annexure-II:
 - (a) Name, legal form and proof of existence;
 - (b) The powers that regulate and bind the legal person or arrangement, as well as the names of the relevant persons having a senior management position in the legal person or arrangement; and

- (c) The address of the registered office and, if different, a principal place of business.
 - (ii) For customers that are legal persons or legal arrangements, SBP REs shall understand the nature of the customer's business and its ownership and control structure.
- 10) For customers that are legal persons, SBP REs shall identify and take reasonable measures to verify the identity of beneficial owners:
- (a) By identifying the natural person(s) who has ultimate effective control of a customer (as defined under relevant laws) on a legal person; and
 - (b) To the extent that there is doubt under (a) as to whether the person(s) with the controlling ownership interest is the beneficial owner(s) or where no natural person exerts control through ownership interests, the identity of the natural person(s) (if any) exercising control of the legal person or arrangement through other means; and
 - (c) Where no natural person is identified under (a) or (b) above, the identity of the relevant natural person who holds the position of senior managing official.
- 11) For customers that are legal arrangements, SBP REs shall identify and take following reasonable measures to verify the identity of beneficial owners:
- (a) 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;
 - (b) For other types of legal arrangements, the identity of persons in equivalent or similar positions.
 - (c) Where any of the persons specified in (a) or (b) is a legal person or arrangement, the identity of the beneficial owner of that legal person or arrangement shall be identified.
- 12) SBP REs shall not open or maintain numbered accounts and shall not conduct transactions on fake identity documents.
- 13) In case of an account/ relationship of an entity with abbreviated name or title, SBP REs shall satisfy themselves that the subject name/ title is in accordance with the constituent documents of the entity. Account/ relationship shall not be allowed in abbreviated name in cases where entity has its complete non-abbreviated name in their constituent document.
- 14) SBP REs shall comply Section 7A of the Act at minimum for all types of customers, financial services they offer and geographical locations they operate in, depending

on the outcome of the IRAR as required in Regulation-1. Based on the categorization they shall profile their business relationships, occasional transactions, or operating geographical locations and may take decision of SDD for low risk and EDD for high risk customers, financial services they offer and geographical locations they operate in.

- 15) SBP REs shall complete the verification of the identity of the customer, occasional customer and beneficial owner before establishing a business relationship or conducting the occasional transaction or during the course of establishing a business relationship or occasional transactions.

Enhanced Due Diligence (EDD)

- 16) SBP REs shall apply EDD in the following circumstances, including but not limited to:
- (a) Business relationships and transactions with natural and legal persons when the risks are higher.
 - (b) Business relationships and transactions with natural and legal persons from countries mentioned in Counter Measures for High Risk Jurisdictions Rules, 2020.
 - (c) PEPs and their close associates and family members.
- 17) In line with their functions and powers prescribed under relevant law, SBP REs may apply EDD measures which may include but not be limited to one or more of the following measures:
- (a) 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.
 - (b) Obtaining additional information on the intended nature of the business relationship/ transactions.
 - (c) Obtaining information on the source of funds or source of wealth of the customer.
 - (d) Obtaining additional information on the reasons for intended or performed transactions and purpose of transaction.
 - (e) Taking reasonable measures to establish the source of funds and wealth involved in the transaction or business relationship to be satisfied that they do not constitute the proceeds from/ for crime.
 - (f) Obtaining the approval of senior management to commence or continue the business relationship or execute the high-risk financial transaction by SBP REs.

- (g) Where applicable, 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.
- (h) Where available, requiring the first payment to be deposited through an account in the customer's name with a bank subject to similar CDD standards.

Simplified Due Diligence

- 18) SBP REs may apply SDD only where low risk is identified as per Regulation-1. SDD measures may include the following:
- (a) Verifying the identity of the customer and the beneficial owner after the establishment of the business relationship;
 - (b) Reducing the degree of on-going monitoring and scrutinizing transactions, based on a reasonable monetary threshold as prescribed by SBP;
 - (c) Not collecting specific information or carrying out specific measures to understand the purpose and intended nature of the business relationship, but inferring the purpose and nature from the type of transactions or business relationship established.
- 19) SBP REs shall not apply SDD whenever there is a suspicion of ML or TF or PF.

Ongoing Monitoring of Business Relationships

- 20) In case SBP REs could not complete CDD, they shall comply with the requirement mentioned in Section 7D of the Act.
- 21) SBP REs may apply following measures for ongoing monitoring of business relationship:
- (a) SBP REs shall ensure update of Customer Risk Profiling (CRP) of their new and existing customers on ongoing basis.
 - (b) SBP REs shall ensure update of CDD of their existing customer on periodical basis. The adequacy of information obtained in respect of customers and beneficial owners shall be reviewed periodically and it shall be ensured that the information is kept up to date, particularly for higher risk categories of customers. In this regard, SBP REs shall develop a policy with regard to frequency and procedure of CDD updating in line with CRP.
 - (c) If customer's profile is revised, the underlying reasons for the revision shall be documented and customer(s) may be contacted for provision of revised/ updated information/ document etc., if necessary.
 - (d) All business relations with customers shall be monitored on an ongoing basis to ensure that the transactions are consistent with the SBP REs knowledge of the

customer, its business and risk profile and where appropriate, the sources of funds.

- (e) SBP REs shall obtain information and examine, as far as possible the background and purpose of 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 these transactions shall be inquired and findings shall be documented with a view to making this information available to the relevant competent authorities when required.
- (f) SBP REs shall update records of their customers with regard to their postal address or email address or registered mobile number or landline number, for ensuring efficient and reliable communications with their customers including wherever customer request/ instruction is desired as per the Regulations.

22) SBP REs shall apply CDD requirements to existing customers on the basis of materiality and risk, and to conduct ongoing 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.

23) SBP REs shall block accounts without valid Identity Document (after serving one-month prior notice) for all debit transactions/ withdrawals, irrespective of mode of payment, until the subject regulatory requirement is fulfilled. However, debit block from the accounts shall be removed upon submission of valid identity document and verification of the same.

Dormant accounts

24) SBP REs may apply following measures for activation of dormant account:

- (a) For customers whose accounts are dormant or in-operative, REs 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 is activated on the request of the account holder.
- (b) It may be noted that transactions e.g. debits under the recovery of loans and markup etc. any permissible bank charges, government duties or levies and instruction issued under any law or from the court will not be subject to debit or withdrawal restriction.
- (c) REs may use the NADRA Verisys and a formal request (through postal address or email address or registered mobile number or landline number) for activation of dormant account by customers. They should retain the NADRA Verisys for record keeping requirements (digitally or hard copy).

Prohibition of personal accounts for business purposes

- 25) REs shall not allow personal accounts to be used for business purposes except proprietorships, small businesses and professions where constituent documents are not available and the REs are satisfied with KYC profile of the account holder, purpose of relationship and expected turnover of the account keeping in view financial status & nature of business of that customer.
- 26) Government accounts shall not be opened in the personal names of the Government official(s). Under the existing statutory and legal framework, no Government Ministry, Division, Department/ Attached Departments and Subordinate Offices can operate its bank accounts other than the principal account of the Federal/ Provincial Government residing at the SBP. The list of all such entities falling in the above mentioned categories is available at the Finance Division's website.
- 27) SBP REs shall open and maintain accounts of autonomous bodies, incorporated under an act of Parliament or the Companies Act 2017, after obtaining the necessary approval/ resolution from their respective board/ governing bodies.
- 28) SBP REs shall open and maintain accounts of autonomous bodies, constituted through a cabinet resolution/ notification of Federal or a Provincial Government, after obtaining a No Objection Certificate (NOC) issued by the Finance Division or relevant finance departments of the province, as the case may be.

Asset Side/ Trade Finance Customers

- 29) SBP REs 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.

REGULATION - 3

RELIANCE ON THIRD PARTY FINANCIAL INSTITUTIONS FOR CDD MEASURES

- 1) SBP REs (except ECs/ ECs-B) are allowed to rely on third party financial institutions for CDD measures.
- 2) The ultimate responsibility for CDD measures shall remain with REs relying on the third party financial institutions.

- 3) Notwithstanding any reliance upon a third party financial institution, SBP REs shall ultimately remain responsible for their AML/ CFT/ CPF obligations, including generating STRs and shall carry out ongoing monitoring of such customer itself.
- 4) SBP REs relying upon a third party financial institutions shall immediately obtain necessary information and documents stipulated in Annexure-I and Annexure-II.
- 5) SBP REs shall satisfy themselves that the third party financial institution is regulated, supervised or monitored for, and has measures in place for compliance with CDD, record-keeping, data security and privacy requirements as prescribed in these Regulations and other instructions issued by SBP from time to time.
- 6) SBP REs shall ensure compliance of Regulation-14 (Counter Measures for High Risk Jurisdictions) while determining in which countries the third party financial institution can be based.
- 7) Where SBP REs rely on a third party financial institution that is part of the same corporate group, SBP REs shall ensure that:
 - (a) The corporate group applies relevant AML/ CFT/ CPF requirements as instructed in the Act and other prescribed rules and regulations under the Act including CDD and record-keeping requirements;
 - (b) The implementation of the requirements in paragraph (a) is supervised by an AML/ CFT/ CPF regulatory authority or an equivalent foreign authority; and
 - (c) The corporate group has adequate measures in place for mitigation of Regulation-14 (Counter Measures for High Risk Jurisdictions).

REGULATION - 4

TARGETED FINANCIAL SANCTIONS UNDER UNSC ACT, 1948 AND ATA, 1997

- 1) SBP REs shall undertake TFS obligations under the UNSC Act and ATA, with regard to:
 - (a) DPs or PPs
 - (b) Entities owned or controlled, directly or indirectly, by them; or
 - (c) Individuals and entities acting on their behalf, or at their direction.
- 2) SBP REs shall ensure that no funds or other financial assets, economic resources, or financial services, are made available, directly or indirectly, wholly or jointly, for the benefit of such individuals or entities unless authorized or otherwise notified in accordance with relevant provisions of the laws.

- 3) SBP REs shall ensure mechanisms, processes and procedures for real-time screening of customers/ occasional customers, by implementing effective name screening solution and allocate sufficient trained resources.
- 4) SBP REs shall ensure that in case of entity accounts, the beneficial owners, directors, members, trustees and authorized signatories are not linked with any DP or PP.
- 5) SBP REs shall monitor their relationships on a continuous/ on-going basis and ensure that no relationship (business or otherwise) exists with DPs/ PPs or individuals and entities acting on their behalf, or at their direction.
- 6) SBP REs shall identify individuals and entities acting on behalf of, or at the direction of DP/ PPs using risk screening databases, watch lists, publically known information or linkages on the basis of Government or regulatory sources, reliable media information, or regulated entity's own analysis, etc.
- 7) If any relationship is found with existing or potential customer or occasional customer, SBP REs shall take the following actions, as applicable:
 - (a) Freeze, without delay and without prior notice, the funds or other assets of the identified relationship, including:
 - i. funds or other assets that are wholly or jointly owned or controlled, directly or indirectly, by DPs or PPs;
 - ii. funds or other assets derived or generated from funds or other assets owned or controlled directly or indirectly by DPs or PPs; and
 - iii. funds or other assets of individuals and entities acting on behalf of, or at the direction of, DPs or PPs.
 - (b) Report any assets frozen or actions taken in compliance with the prohibition requirements, including attempted transactions or account opening requests, to the FMU.
 - (c) Report the freezing of funds or other financial assets to SBP, within 48 hours of freezing, in the manner prescribed by SBP.
 - (d) In case of freezing under UNSC Act, issue notice of freezing of funds or other assets to the account holder or any other person affected by the freezing as per Form-B of the UNSC (Freezing and Seizure) Order, 2019.
- 8) SBP REs shall view with suspicion and properly analyze any similarity between the information of the customer/ occasional customer and that of a DP or PP, including identification number, date of birth, address, etc. for necessary action under the relevant provisions of ATA or the UNSC (Freezing and Seizure) Order, 2019, respectively.

- 9) SBP REs shall unfreeze the frozen funds or other assets of individuals and entities:
 - (a) Which have been removed from the list of DPs or PPs.
 - (b) Who are inadvertently affected by a freezing mechanism (i.e. a false positive), upon verification that the individual or entity involved is not a DP/ PP or acting on behalf of or on the direction of a DP/ PP under the relevant provisions of ATA or the UNSC (Freezing and Seizure) Order, 2019, respectively.
- 10) The unfreezing of funds or other financial assets shall only be done after conducting due diligence and ensuring that no other blocking/ freezing authority is in place, and shall be reported to SBP in the prescribed manner.
- 11) SBP REs shall ensure compliance with TFS obligations with regard to their vendors, employees (permanent, contractual or hired through outsourcing), BoD, owners, sponsor shareholders, etc.
- 12) SBP REs shall maintain up-to-date MIS of all frozen assets, funds, attempted financial transactions or account opening requests, and the same shall be made available to SBP as and when required.
- 13) SBP REs shall permit deposits (credits) in frozen accounts without changing status of the accounts. However, no charges shall be deducted from frozen accounts unless specifically allowed and no frozen account shall be treated as unclaimed deposit for surrendering to SBP.
- 14) SBP REs shall allow withdrawals (debits) from frozen accounts for which specific exemption has been granted under the relevant provisions of ATA or the UNSC (Freezing and Seizure) Order, 2019, as applicable, up to the amount specified within the exemption SRO/ Notification. Regulated entities may deduct bank charges, FED and/ or withholding taxes from the exempted amount of the frozen account.

REGULATION - 5

POLITICALLY EXPOSED PERSONS (PEPs)

- 1) In relation to PEPs and their close associates or family members, SBP REs shall:
 - (a) Implement appropriate internal policies, procedures and controls to determine if a customer or beneficial owner is a PEP or a close associate or a family member of a PEP, both prior to establishing a business relationship or conducting a transaction throughout the course of the business relationship.

- (b) Obtain approval from the senior management to establish or continue business relations or want to execute financial transaction where the customer or a beneficial owner is a PEP or subsequently becomes a PEP, a close associate or family member of PEP.
- (c) Establish, by appropriate means, the sources of wealth and the source of funds of customers and beneficial owners identified as PEP, a close associate or family member of PEP.
- (d) Conduct enhanced ongoing monitoring of business relations with the customer or beneficial owner identified as PEP, close associate and family member of PEP.

REGULATION - 6

NGO/ NPO/ CHARITY/ TRUST ACCOUNTS

- 1) SBP REs shall conduct EDD (including obtaining senior management approval) while establishing relationship/ execution of financial transaction with NGOs/ NPOs, Charities and Trusts, when the risks are higher, to ensure that these accounts are used for legitimate purposes and the transactions are commensurate with the stated objectives and purposes.
- 2) SBP REs while onboarding, initiating process of building business relationship, opening of account, allowing financial services in the name of NGO / NPO shall ensure it in the name of relevant NGO/ NPO as per title given in constituent documents of the entity.
- 3) The individuals who are authorized to operate these accounts and all members of their governing body shall also be subject to CDD separately. SBP REs shall ensure that these persons are not affiliated with any DP/ PP, whether under the same name or a different name.
- 4) In case of advertisements through newspapers or any other medium, especially when bank account number/ permanent customer relationship number is mentioned for donations, SBP REs will ensure that the title of the customer relationship / account is the same as that of the entity soliciting donations. In case of any difference, immediate caution shall be marked on such accounts/ customer relationship numbers and the matter shall be considered for filing STR.
- 5) Personal accounts/ customer relationships shall not be allowed to be used for charity purposes/ collection of donations.

- 6) All existing relationships of NGOs/ NPOs/ Charities/ Trust shall be reviewed and monitored by SBP REs to ensure that these organizations, their authorized signatories, members of their governing body/ beneficial owners/ trustees are not linked with any DP or PP, whether under the same name or a different name. In case of any positive match found, SBP REs shall consider filing STR and/ or take other actions as per law.
- 7) The aforementioned provisions are not applicable for ECs/ ECs-B.

REGULATION - 7

REPORTING OF TRANSACTIONS (STRs/ CTRs)

- 1) SBP REs shall file STRs and CTRs with FMU as required under Section 7 of the Act.

REGULATION - 8

RECORD KEEPING

- 1) SBP REs shall ensure compliance with the following record keeping instructions for maintaining record of documents and information obtained digitally or in hard form for CDD and other purposes.
- 2) The records of identification data obtained through CDD process including but not limited to copies of identification documents, account opening forms, KYC forms, verification documents and other documents along with records of account files and business correspondence, shall be maintained for a period of ten years after the business relationship is ended.
- 3) SBP REs shall maintain all necessary records of transactions, both domestic and international, including the results of any analysis undertaken (e.g. inquiries to establish the background and purpose of complex, unusual large transactions) and shall also keep and maintain all record related to STRs and CTRs filed by it for a minimum period of ten years from completion of the transaction.
- 4) The records shall be sufficient to permit reconstruction of individual transactions including the nature and date of the transaction, the type and amount of currency involved and the type and identifying number of any account involved in the transactions to provide, when necessary, as an evidence if required by LEAs and

other relevant authorities as per law. The transactions' records may be maintained in paper or electronic form or on microfilm, provided it is admissible as evidence in a court of law.

- 5) Where transactions, customers or instruments are involved in litigation or where relevant records are required by a court of law or other competent authority, SBP REs shall retain such records until the litigation is resolved or until the court of law or competent authority indicates that the records no longer need to be retained.
- 6) SBP REs shall satisfy, as soon as possible, any enquiry or order received from the relevant competent authorities, including LEAs and FMU for supply of information and records as per law.

REGULATION - 9

CORRESPONDENT BANKING

- 1) In addition to measures required under Regulation-2, SBP REs shall take the following measures, in line with functions and powers prescribed under relevant law, for providing correspondent banking services-
 - (a) Assess the suitability of the respondent bank by taking the following steps:
 - i. gather adequate information about the respondent bank to understand fully the nature of the respondent bank's business, including but not limited to the following, where applicable;
 - Major business activities
 - Their geographical presence/ jurisdiction (country) of correspondence
 - Information about the respondent bank's management and ownership
 - CDD
 - AML/ CFT/ CPF controls and procedures
 - ML/ TF/ PF prevention and detection measures
 - The purpose for which the account or service will be used
 - The identity of any third party that will use the correspondent banking services (i.e. in case of payable through accounts)
 - Condition of the banking regulation and supervision in the respondent's country
 - ii. determine from any available sources the reputation of the respondent bank and, as far as practicable, the quality of supervision over the respondent bank, including where possible whether it has been the subject of money laundering or financing of terrorism investigation or regulatory action; and

- iii. assess the respondent bank in the context of sanctions/ embargoes and advisories about risks.
 - (b) Clearly understand and document the respective AML/ CFT/ CPF responsibilities of each bank;
 - (c) Obtain approval of senior management, before establishing new correspondent banking relationship; and
 - (d) Where the cross-border banking services involve a payable-through account, the correspondent bank shall be satisfied that the respondent bank has performed appropriate CDD measures at least equivalent to those specified in Regulation-2 on the third party having direct access to the payable-through account; and the respondent bank is able to perform ongoing monitoring of its business relations with that third party and is willing and able to provide customer identification information to the correspondent bank upon request.
- 2) SBP REs shall apply EDD when establishing or continuing correspondent relationship with banks/ financial institutions, pertaining to high risk countries as mentioned in the Counter Measures for High Risk Jurisdictions Rules, 2020.
- 3) SBP REs shall not enter into or continue correspondent banking relations with a shell bank and shall take appropriate measures when establishing correspondent banking relations, to satisfy them that their respondent banks do not permit their accounts to be used by shell banks and itself ensure that its platform is not used by any shell bank for execution of financial transaction or provision of financial services.
- 4) In case where an SBP RE is availing correspondent banking services from a bank/ financial institution abroad, the CDD measures specified above shall be applied, as considered necessary to mitigate ML/ TF / PF risks.

REGULATION - 10

MONEY VALUE TRANSFER SERVICE (MVTS) / EXCHANGE COMPANIES

- 1) Under Section 3, 3A and 3 AA of FERA, SBP issues authorization/ license to deal in foreign exchange including foreign currency, foreign currency notes, transfers, coins, postal notes, money orders, bank drafts, and traveler's cheques. Chapter-2 of the Exchange Companies Manual elaborates the licensing criteria/ requirements for ECs/ ECs-B. Unauthorized foreign exchange business including unauthorized money transfers/ payments (illegal MVTS) is a punishable offense under FERA and the Act.

- 2) SBP REs providing the money transfer services shall run awareness campaigns against illegal MVTS business on ongoing basis using digital/ print media and/ or through placing notices/ banners throughout their network, websites, ATMs and other digital platforms. The awareness campaign shall cover at least the following aspects:
 - (a) Only SBP licensed entities can carry out MVTS business in Pakistan
 - (b) Encouraging public to utilize services offered by SBP licensed entities and identify/ report illegal MVTS operators to the FIA
 - (c) Discourage public from using illegal MVTS (Hundi/ Hawala)
- 3) SBP REs providing money transfer services shall ensure effective systems for monitoring and ensuring compliance with AML/ CFT/ CPF obligations, controls, preventive measures including STR/ CTR and TFS obligations as per the Act and these Regulations, so as to identify and mitigate ML/ TF/ PF risk posed to and from their entities as per their business and operational model.
- 4) SBP REs providing the money transfer services shall ensure that none of their employee(s) or branches, franchises, payment booths, and agents are involved in conducting or facilitating any sort of unauthorized/ illegal money transfer service (illegal MVTS - Hundi Hawala) directly or indirectly.
- 5) SBP REs providing the money transfer services shall ensure that the business is conducted only from such premises as approved by SBP. SBP REs shall maintain a current list of their branches, franchises, payment booths, currency exchange booths, agents etc.
- 6) SBP REs providing the money transfer services shall ensure the implementation of AML/ CFT/ CPF program throughout their network including branches, franchises, payment booths, agents, etc. SBP REs shall also ensure to monitor their branches, franchisees, payments booths, agents etc. for compliance with AML/ CFT/ CFP instructions.

REGULATION - 11

WIRE TRANSFERS/ FUND TRANSFERS

- 1) The requirement under this Regulation-11 shall apply to SBP REs, functions and powers prescribed under relevant law, during the course of sending or receiving funds by wire transfer except transfer and settlement between the SBP REs where

both the FIs are acting on their own behalf as originator and the beneficiary of the wire transfer;

Responsibility of the Ordering Institution

- 2) SBP REs as ordering institutions (whether domestic or cross-border wire transfer) shall;
 - (a) Identify and verify the originator (if it has not already done under Regulation-2); and obtain details of beneficial owner(s) of funds; and
 - (b) Record adequate details of the wire transfer so as to permit its reconstruction, including the date of the wire transfer, the type and amount of currency involved, the value date, the purpose and details of the wire transfer beneficiary and the beneficiary institution, and relationship between originator and beneficiary, as applicable, etc.
- 3) SBP REs shall include the following information in the message or payment instruction which shall accompany or remain with the wire transfer throughout the payment chain:
 - (a) Name of the originator;
 - (b) Originator's account number or unique reference number which permits traceability of the transaction;
 - (c) Originator's applicable identity document number;
 - (d) Name of the beneficiary; and
 - (e) Beneficiary's applicable identity document number.
- 4) Where several individual cross-border wire transfers from a single originator are bundled in a batch file for transmission to beneficiaries, the batch file shall contain the required and accurate originator information (originator's account number or unique transaction reference number) and full beneficiary information that is traceable within the beneficiary country.

Responsibility of the Beneficiary Institution

- 5) Beneficiary institution shall verify the identity of the beneficiary, if the identity has not been previously verified, and record this information, as per relevant record keeping requirements.
- 6) Beneficiary institution shall adopt risk-based internal policies, procedures and controls for identifying and handling in-coming wire transfers that are not accompanied by complete originator or beneficiary information. The incomplete originator or beneficiary information may be considered as a factor in assessing

whether to execute or terminate the transaction, and in assessing whether the transaction is suspicious and merits reporting to FMU.

- 7) SBP REs shall limit or prohibit relationships or transactions with institutions that do not comply with the standard requirements for wire transfers.
- 8) However, in case of foreign inward remittances, local banks that provide agency services to MFBs under agreement shall be treated as originator and MFBs shall not take any foreign exchange exposure.

Responsibility of Intermediary Institution

- 9) SBP REs, as intermediary financial institutions, shall:
 - (a) In passing onward the message or payment instruction, maintain all the required originator and beneficiary information with the wire transfer;
 - (b) Keep a record of all the information received from the ordering financial institution or another intermediary financial institution, as per relevant record keeping requirements;
 - (c) Take reasonable measures, which are consistent with straight-through processing, to identify cross-border wire transfers that lack required originator information or beneficiary information; and
 - (d) Have risk-based policies and procedures for determining: (i) when to execute, reject, or suspend a wire transfer lacking required originator or beneficiary information; and (ii) the appropriate follow-up action.

REGULATION - 12 **NEW TECHNOLOGIES**

Review of Products and Services including new Technologies

- 1) SBP REs shall identify and assess the ML/ TF/ PF risks that may arise in relation to the development of new products, services and business practices including delivery mechanisms, and the use of new or developing technologies for both new and pre-existing products, especially those that have vulnerability with regard to ML/ TF/ PF risks specially identity theft, anonymity and cyber-crimes.
- 2) Furthermore, ML/ TF/ PF risk assessments shall be undertaken prior to the launch or use of such products, services and business practices and technologies.
- 3) Appropriate measures shall be taken to manage and mitigate the identified risks.

- 4) REs are required to ensure automation of business and operational processes and use of systems for risk management and controls in area of AML/ CFT/ CPF.
- 5) Further, wherever required, SBP REs shall use mitigation measures in digital channels against identity theft such as live picture or video, electronic/ digital signature, two-factor authentication through email and registered on name mobile number, and biometric verification of customers. In this regard, SBP REs shall ensure compliance with prevailing laws and regulatory instructions.
- 6) SBP REs as per requirement of their business and operational models shall make use of technology and upgrade their systems and procedures in accordance with the changing profile of various ML/ TF/ PF risks. Accordingly, all SBP REs shall implement automated Transaction Monitoring Systems (TMS) capable of producing meaningful alerts based on pre-defined parameters/ thresholds and customer profile, for analysis and possible reporting of suspicious transactions. Further, SBP REs shall establish criteria in their AML/ CFT/ CPF policies and/ or procedures for management of such alerts. The adequacy of staff posted for effective monitoring and reporting of STRs is a critical factor of CDD. SBP REs shall place adequate number of analysts for monitoring and reporting purpose.
- 7) ECs/ ECs-B are required to obtain prior approval from Exchange Policy Department, SBP before offering any new product/ service.

REGULATION - 13

INTERNAL CONTROLS

- 1) As mentioned in Regulation-1 (Risk Based Approach to AML/ CFT), periodical IRAR shall recommend measures to BoD through time bound action plan to ensure adequate introduction and implementation of AML/ CFT/ CPF controls/ preventive measures to mitigate ML/ TF/ PF risks posed to and from SBP REs. These include but are not limited to:
 - (a) Development and keeping the entity's business strategy up to date including entity risk appetite.
 - (b) Development and keeping the entity's policy framework approved by board updated with regard to mitigation of emergent ML/ TF/ PF risks.
 - (c) Development and keeping up to date AML/ CFT/ CPF compliance program/ procedure manuals/ SOPs approved by senior management, for ensuring AML/ CFT/ CPF controls (preventive measures) including implementation of TFS related to TF & PF and reporting of STRs/ CTRs.

Compliance

- 2) SBP REs shall ensure that compliance officers have timely access to all customer records and other relevant information, which they may require to discharge their functions, as well as any other persons appointed to assist the compliance officer.
- 3) SBP REs shall incorporate procedures to record and maintain data of account opening/ customer relationships cases rejected by compliance or central account opening units, the cases where customers' risk ratings recommended by business units were challenged or revised, and the cases where accounts/ customer relationships were closed based on ML/ TF / PF risks.
- 4) SBP REs shall:
 - (a) Include compliance with AML/ CFT/ CPF related responsibilities in Key Performance Indicators (KPIs) of responsible staff down the line, in order to strengthen the compliance of AML/ CFT/ CPF function. Moreover, ML/ TF/ PF risks shall be included in KPIs of officer(s) responsible for Enterprise Risk Management and Operational Risk Management functions.
 - (b) SBP REs shall not assign conflicting roles to their employees. Appropriate strategies may be devised to ensure provision of safe and smooth financial services to the customers.
 - (c) SBP REs shall assess working strength of the compliance function and all its subdivisions on annual basis and deficiency if any observed, shall be addressed on priority basis.
 - (d) Employees of SBP REs shall be strictly prohibited from disclosing the fact to the customer or any other quarter that an STR or related information is being or has been reported to FMU, except if required by law. This shall be made part of Code of Ethics to be signed by employees and Directors of the SBP REs at the time of inductions.

Audit

- 5) SBP REs shall maintain an independent audit function in line with the Code of Corporate Governance that is adequately resourced and able to regularly assess the effectiveness of the SBP REs' AML/ CFT/ CPF policies, procedures and controls, and its compliance with regulatory requirements.

Foreign Branches and Subsidiaries

- 6) SBP REs shall pay particular attention to their branches and subsidiaries located in countries, which do not or insufficiently comply with FATF Recommendations (as determined by FATF or identified by SBP) and ensure that their AML/ CFT/ CPF policy is observed by branches and subsidiaries in those countries.

- 7) SBP REs shall apply their AML/ CFT/ CPF policies to all of their branches and subsidiaries outside Pakistan to the extent that laws and regulations of the host country permit. Where the AML/ CFT/ CPF requirements in the host country or jurisdiction differ from those in Pakistan, SBP REs shall require their overseas branches or subsidiaries to apply the higher of the two standards, to the extent that the law of the host country or jurisdiction so permits.
- 8) Where the law of the host country conflicts with the AML/ CFT/ CPF requirements of Pakistan so that the overseas branch or subsidiary is unable to observe the higher standards, SBP REs through their head office shall report this to SBP and comply with such further directions as may be issued.

Employee Due Diligence

- 9) SBP REs shall develop and implement appropriate screening procedures to ensure high standards and integrity at the time of hiring all employees, whether contractual or permanent or hired through outsourcing. In this respect, SBP REs shall inter alia invariably ensure that:
 - (a) All employees are screened against lists of designated and proscribed individuals, on an ongoing basis, and maintain proper record of screening. Accordingly, employees shall become disqualified if they are designated/ proscribed or associated directly or indirectly with DPs/ PPs.
 - (b) No employee is or has been convicted/ involved in any fraud/ forgery, financial crime etc.
 - (c) No employee is or has been associated with any illegal activity concerning banking business, foreign exchange business, financial dealing and other business or employment.
 - (d) SBP REs comply with SBP's Fitness and Proprietary Test (F&PT) Criterion required for sponsor shareholders & board approval and senior management appointment.

Franchise/ Payment Booth Due Diligence (Applicable only on ECs)

- 10) ECs shall develop and implement appropriate screening procedures to ensure high standards and integrity for all Franchises/ Payment Booth (agents). In this respect, ECs shall inter alia invariably ensure that:
 - (a) All owners and employees of Franchise/ Payment Booth are screened, on an ongoing basis, for designated/ proscribed persons and maintain proper record of screening. Accordingly, any owner/ employee shall become disqualified if

they are designated/ proscribed or associated directly or indirectly with DPs/ PPs.

- (b) The owners and employees of Franchise and Payment Booth have not been convicted/ involved in any fraud/ forgery, financial crime etc.

Training

- 11) SBP REs shall chalk out and implement suitable Annual Training Program, which is developed after Formal Training Need Assessment in area of AML/ CFT/ CPF annually. The Annual Training Program shall ensure training sessions for Sponsor Shareholders, BoD, Senior Management, Line Management, and Field Staff. Special emphasis shall be given for officials directly/ indirectly responsible for ensuring Governance/ Oversight/ Supervision/ Monitoring of risk mitigation of ML/ TF/ PF risk and ensuring AML/ CFT/ CPF preventive measures as per the Act and these Regulations including on TFS for TF & PF and STR/ CTR as per their required need and relevance of job.
- 12) SBP REs shall ensure that content of training and methodology used is updated with regard to emergent risks identified by SBP REs through IRAR, updates in National Risk Assessment (NRA) threats & vulnerabilities, update in international standards and best practices including by FATF/ FSRBs/ BIS in area of AML/ CFT/ CPF, regulatory/ supervisory updates, update in legal framework, issuance and sharing of guiding documents and analysis by government specially FMU, MOFA, NACTA in the areas of AML/ CFT/ CPF.
- 13) Training shall be imparted to improve knowledge, skills and analysis of SBP REs' officials in the area of AML/ CFT/ CPF especially with regard to Regtechs and Suptechs implemented by SBP REs and MIS generated.
- 14) Training to employees directly/ indirectly responsible for AML/ CFT/ CPF shall enable them to understand new developments, money laundering and financing of terrorism techniques, methods and trends. The training content shall also include their responsibilities relating to AML/ CFT/ CPF especially requirements relating to TFS, CDD and analysis of abnormal/ out of pattern transactions and alerts generated thereof for possible reporting of suspicious transactions.
- 15) SBP REs are also encouraged to ensure outreach and awareness covering ML/ TF/ PF risks and the AML/ CFT/ CPF obligations including TFS for TF & PF and STR/ CTR. The audience may be customers of SBP REs as well.
- 16) SBP REs shall test the capability and knowledge of the relevant staff on periodic basis. The online trainings and AML/ CFT/ CPF tests of varying nature are

available in the market offering opportunity for SBP REs to equip their staff with relevant skills as per respective roles and responsibilities within the institution. As the periodic training of the front-end staff is crucial, which is the first point of contact with customer, SBP REs shall either purchase or internally develop comprehensive AML/ CFT/ CPF/ TFS computer-based/ online training programs and tests under a comprehensive plan with clear timelines for its implementation.

REGULATION - 14

COUNTER MEASURES FOR HIGH RISK JURISDICTIONS

- 1) SBP REs shall comply with the obligations imposed in the Counter Measures for High Risk Jurisdictions Rules, 2020.

REGULATION - 15

REGULATION AND SUPERVISION

- 1) SBP REs shall ensure that any person(s) linked to any criminal activities or affiliated with any terrorist organizations shall not become part of SBP REs.
- 2) Accordingly, no person can become sponsor shareholder/ beneficial owner, director, president and/ or key executive of RE, if that person does not comply with FPT requirements, including if that person is
 - (a) DP/PP or associated directly or indirectly with any DP/PP; or
 - (b) Convicted of or associated directly or indirectly with any person convicted of any offence, including any ML/TF offence or any predicate offence set out in Schedule-I of the Act

For the purpose of this regulation, Fit and Proper Test (FPT) shall be interpreted in accordance to BPRD Circular No. 04 of 2007 and its subsequent Circulars.

In addition, sponsor, shareholder, director, president & key executive shall have the same meaning as defined in Prudential Regulations for Banks/DFIs as amended from time to time.

- 3) SBP REs shall ensure that the person subject to FPT has been verified through NADRA and screened against the applicable sanctions list as per the applicable laws, rules and regulations.

- 4) In the case of corporate group, in addition to compliance with Regulation 13, the RE shall implement :
- (a) policies and procedures for sharing information at a group level required for the purposes of CDD and risk management;
 - (b) the provision, at group-level compliance, audit, and/or AML & CFT functions, of customer, account, and transaction information from branches and subsidiaries when necessary for AML & CFT purposes.
 - (c) adequate safeguards on the confidentiality and use of information exchanged at group-level, including safeguards to prevent tipping-off.

Annexure-I

List of Information Required for Customer Identity

A. Basic Identification Information

1. Full name as per identity document
2. Mother Maiden name
3. Date of Birth
4. Place of Birth
5. Permanent Address
6. Identity document number, whichever applicable
7. Date of expiry of applicable identity document

B. Other basic information

8. Father/ spouse name as per identity document
9. Date of issuance of applicable identity document
10. Contact Number: Mobile Number (s)/ Land Line Number
11. Purpose of account/ transaction/ business relation
12. Beneficial ownership/ controlling rights

C. Other relevant Information for natural persons, as applicable

13. Current/ Mailing Address
14. Personal Email Address (as applicable)
15. Nationality - Resident/ Non-Resident Status
16. FATCA/ CRS Declaration, wherever required
17. Profession/ Source of Income/ Funds: Salary, Business, investment income
18. Next of Kin
19. Attested Passport Size Photo (in case of Photo Account instructions)
20. Live Photo (in case of digital onboarding)

D. Information for Legal Persons/ Legal Arrangements

1. Registration/ incorporation number or business registration number (as applicable)
2. Date of incorporation or registration of legal person or arrangement (as applicable)
3. Place of incorporation or registration of legal person or arrangement (as applicable)
4. National Tax Number (NTN)
5. Nature of business, geographies involved and expected type of counter-parties (as applicable)

6. Registered or business address
7. Intended nature of business relations
8. Purpose of account or transaction (where accounts are not maintained and transactions are done by walk in/ occasional customers)
9. Type of account/ financial transaction/ financial service
10. Expected monthly credit turnover (amount and No. of transactions)
11. Normal or expected modes of transactions/ delivery channels
12. Wherever instructed/ advised, regulatory limits imposed such as: credit and debits/ deposit and withdrawals/ execution of financial transaction/ types of financial services allowed/ restricted.

E. Additional Information in case of "Trusts"

13. Whether the Trust is a Public Trust or Private Trust including foreign and national trust
14. Trust Deed whereby the Trust has been created;
15. Details of Settlor (this will also be available in the Trust Deed);
16. Objects of the trust (this will also be available in the Trust Deed);
17. Trustee of the trust (whether trustee is associated person of the settlor);
18. Description of each class or type of beneficiary (this information may also be checked from Trust Deed);
19. Details of any possibility of influence of any other person on trustee regarding management and control of trust property;
20. In the case of "Private Trust" if the beneficiary of a trust is also the beneficial owner of the trust, identification and verification of the beneficiary is required otherwise the name and CNIC of each beneficiary of a trust should be obtained.

Annexure-II**Minimum Documents to be obtained for
Identification of Customer/ Occasional Customer**

Sr. No	Type of Customers	Documents/ papers to be obtained
1)	Individuals (including Walk in/ Occasional customers)	1) Copy of the applicable valid identity document
2)	Joint Account	1) Copy of the applicable valid identity document for each joint account holder 2) In the case of joint accounts, CDD measures on all of the joint account holders shall be performed as if each of them is individual customers of the SBP RE.
3)	Sole Proprietorship	1) Copy of the applicable valid identity document; 2) Any one of the following documents: a) Registration certificate for registered concerns b) Sales tax registration or NTN certificate, wherever applicable c) Certificate or proof of membership of trade bodies etc., wherever applicable d) Declaration of sole proprietorship on business letterhead e) Account opening requisition on business letterhead
4)	Small businesses and professions including freelance professionals	1) Copy of the applicable valid identity document of the account holder/s 2) Any one of the following documents: a) Registration certificate for registered concerns. b) Sales tax registration or NTN certificate, wherever applicable. c) Certificate or proof of membership of trade bodies etc., wherever applicable. d) Proof of source of funds/ income
5)	Partnership	1) Copy of the applicable valid identity document of all partners and authorized signatories 2) All of the following documents: a) Attested copy of 'Partnership Deed' duly signed by all partners of the firm.

Sr. No	Type of Customers	Documents/ papers to be obtained
		<p>b) Attested copy of Registration Certificate with Registrar of Firms. In case the partnership is unregistered, this fact shall be clearly mentioned on the Account Opening Form.</p> <p>c) Authority letter, in original, signed by all partners for opening and operating the account.</p>
6)	Limited Liability Partnership (LLP)	<p>1) Copy of the applicable valid identity document of all partners and authorized signatories</p> <p>2) All of the following documents:</p> <p>a) Certified Copies of:</p> <p>i) 'Limited Liability Partnership Deed/ Agreement'</p> <p>ii) LLP-Form-III having detail of partners/ designated partner in case of newly incorporated LLP.</p> <p>iii) LLP-Form-V regarding change in partners/ designated partner in case of already incorporated LLP.</p> <p>b) Authority letter signed by all partners, authorizing the person(s) to operate LLP account.</p>
7)	Limited Companies/ Corporations	<p>1) Copy of the applicable valid identity document of all directors and authorized signatories</p> <p>2) Certified copies all of the following documents:</p> <p>a) Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account;</p> <p>b) Memorandum and Articles of Association;</p> <p>c) Certified copy of Latest 'Form-A/Form-B'</p> <p>d) Incorporate Form II in case of newly incorporated company and Form A/ Form C whichever is applicable; and Form 29 in already incorporated companies</p>
8)	Branch Office or Liaison Office of Foreign Companies	<p>1) Copy of the applicable valid identity document of senior official and/ or authorized signatories</p> <p>2) All of the following documents:</p> <p>a) Copy of permission letter from relevant authority i.e. Board of Investment</p> <p>b) List of directors on company letterhead or prescribed format under relevant laws/ regulations.</p> <p>c) Certified copies all of the following documents:</p>

Sr. No	Type of Customers	Documents/ papers to be obtained
		<ul style="list-style-type: none"> i) Form II about particulars of directors, Principal Officer etc. in case of newly registered branch or liaison office of a foreign company ii) Form III about change in directors, principal officers etc. in already registered foreign companies branch or liaison office of a foreign company d) Letter from Principal Officer of the entity authorizing the person(s) to open and operate the account.
9)	Trust, Clubs, Societies and Associations etc.	<ul style="list-style-type: none"> 1) Copy of the applicable valid identity document of: <ul style="list-style-type: none"> a) all members of Governing Body/ Board of Directors/ Trustees/ Executive Committee, if it is ultimate governing body, b) all authorized signatories c) settlor, the trustee(s), the protector (if any), and the beneficiaries 2) Declaration from Governing Body/ Board of Trustees/ Executive Committee/ sponsors on ultimate control, purpose and source of funds etc. 3) Certified copies all of the following documents: <ul style="list-style-type: none"> a) Certificate of Registration/ Instrument of Trust b) By-laws/ Rules & Regulations c) Resolution/ Documentation of the Governing Body/ Board of Trustees/ Executive Committee, if it is ultimate governing body, authorizing any person(s) to open and operate the account
10)	NGOs/ NPOs/ Charities	<ul style="list-style-type: none"> 1) Photocopy (after original seen) of the applicable identity documents of all members of Governing Body/ Board of Directors/ Trustees/ Executive Committee, if it is ultimate governing body, and authorized signatories. 2) Certified copies all of the following documents: <ul style="list-style-type: none"> a) All relevant Registration documents/ Certificate of Incorporation/ license issued by SECP, as applicable b) Memorandum & Article of Association c) Incorporation Form II in case of newly incorporated company and Form B-29 in case of already incorporated company

Sr. No	Type of Customers	Documents/ papers to be obtained
		d) Resolution of the Governing Body/ Board of Directors/ Trustees/ Executive Committee, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account 3) Annual accounts/ financial statements or disclosures in any form, which may help to ascertain the detail of its activities, sources and usage of funds in order to assess the risk profile of the prospective customer
11)	Agents Accounts	1) Copy of the applicable valid identity document of the agent and principal 2) Certified copy of 'Power of Attorney' or 'Agency Agreement' 3) The relevant documents/ papers from Sr. No. 2 to 10, if agent or the principal is not a natural person
12)	Executors and Administrators	1) Copy of the applicable valid identity document of the Executor/ Administrator 2) Certified copy of Letter of Administration or Probate
13)	Minor Accounts	1) Copy of the applicable valid identity document of the minor and his/ her parent or natural or Court Appointed Guardian 2) Certified copy of order of appointment of Guardian appointed by Court, if applicable

Note:

- 1) Requirement for copy of applicable valid identity document can be fulfilled by either:
 - a. obtaining photocopies of identity documents, invariably attested by Gazetted officer/ Nazim/ Administrator or an officer of the SBP RE after original seen; or
 - b. retaining copy of NADRA Verisys or Biometric Verification, for (hard or digital as proof of obtaining identity from customer)

- 2) In case of an individual with shaky/ immature signatures, in addition to CNIC or any of valid document mentioned at Sr. No 1, a passport size photograph of the new account holder besides taking his right and left thumb impression on the specimen signature card will be obtained.

- 3) In case of expired CNIC, account may be opened or process of permanent customer relationship may be initiated on the basis of attested copies of NADRA receipt/ token and expired CNIC subject to condition that SBP RE shall obtain copy of renewed CNIC of such customer within 03 months of the opening of account/ initiating permanent customer relationship. For CNICs which expire during the course of the customer's relationship, SBP RE 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, SBP REs are also permitted to utilize NADRA Verisys reports of renewed CNICs and retain copies in lieu of valid copy of CNICs. However, where necessary obtaining copy of renewed CNIC as per existing instructions will continue to be permissible.

- 4) The requirement of obtaining NTN depends upon availability/ issuance of NTN by tax authorities. The requirement of NTN should not be the reason for refusal of financial services to the customers, especially, where bank account is a prerequisite for obtaining NTN as per FBR's criteria. The SBP REs should facilitate their customers in opening bank accounts and subsequently obtain NTN when issued by the FBR.

- 5) The condition of obtaining photocopies of identity documents of directors of Limited Companies/ Corporations is relaxed in case of Government/ Semi Government entities, where SBP REs should obtain photocopies of identity documents of only those directors and persons who are authorized to open and operate the account. However, SBP REs shall validate identity information including CNIC numbers of other directors from certified copies of relevant list(s) required to be filed under Companies Act, 2017.
