

Government of Pakistan
Finance Division
NS AML-CFT Supervisory Board Secretariat
Islamabad

Subject: Guidelines by National Savings AML-CFT Supervisory Board for CDNS on:
I) Targeted Financial Sanctions (TFS) under UNSC Resolutions
II) Politically Exposed Persons (PEPs)
III) Risk based AML/CFT Supervision and Compliance Inspection Manual
IV) National Savings AML/CFT Risk Based Supervisory Framework
V) Customer Risk Assessment and Rating

Reference to the subject above. The Chairman, NS AML and CFT Supervisory Board has been pleased to approve various Guidelines for CDNS after due deliberations among the Members of the Supervisory Board. The same are hereby issued to CDNS for compliance of FATF Recommendations for Pakistan and applicable laws & rules, including AML Act, 2010 (amended Sep, 2020) and National Savings AML and CFT (Powers & Functions) Rules, 2020. The subject guidelines are listed below, namely:

Guidelines/Template by National Savings AML-CFT Supervisory Board for CDNS on:	Effective Dates of approval:	URL / Web-link for soft-copies:
Targeted Financial Sanctions (TFS) under UNSC Resolutions	1 st of October, 2020	http://savings.gov.pk/guidelines/
Politically Exposed Persons (PEPs)	12 th of December, 2020	
Risk based AML/CFT Supervision and Compliance Inspection Manual	17 th of December, 2020	
National Savings AML/CFT Risk Based Supervisory Framework	1 st of October, 2020	
Customer Risk Assessment & Rating	12 th of December, 2020	

2. CDNS is directed to take all necessary steps to implement the aforesaid Guidelines.


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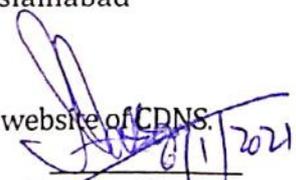
The Director General, CDNS, Islamabad

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Dated: 6th of January, 2021

Distribution:

- 1) AFS (Budget) / Chairman NS AML-CFT Supervisory Board, Finance Division, Islamabad
- 2) SO (CDNS), Finance Division, Islamabad
- 3) The Director, Vigilance & Monitoring Wing, CDNS, Islamabad
- 4) The Webmaster, CDNS, Islamabad; with the request to upload the same on official website of CDNS.


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National Savings (AML-CFT) Supervisory Board Islamabad

Guidelines for CDNS On Politically Exposed Persons (PEPs)

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Who is a Politically Exposed Person (PEP)?

Politically-exposed persons (PEPs) are individuals who, by virtue of their position in public life, may be vulnerable to or involved in corruption. PEP is defined in the **Definitions of the National Savings (AML and CFT) Regulations 2020** as:

“Politically exposed person” or “PEP” means an individual who is or has been entrusted with a prominent public function in Pakistan, a foreign country, or in an international organization and includes but is not limited to:

- (i) heads of states, heads of governments, ministers and deputy or assistant ministers by whatever name called;*
- (ii) Members of Parliament or provincial assembly;*
- (iii) Judges of Supreme Courts, of constitutional courts or of any judicial body the decisions of which are not subject to further appeal except in exceptional circumstances;*
- (iv) Government employees of BPS-21 or equivalent and above;*
- (v) Ambassadors;*
- (vi) Military officers with a rank of Lt General or higher and its commensurate rank in other services;*
- (vii) directors and members of the board or equivalent function of an international organization;*
- (viii) members of the governing bodies of political parties; and*
- (ix) members of the board or equivalent function in corporations, departments or bodies that are owned or controlled by the state.*

Why are family members and close associates included?

Family members and close associates are included because based on investigations globally a corrupt PEP would use either a family member or a close associate to facilitate money laundering. Criminals including corrupt PEPs like to maintain control of illicit proceeds, while at the same time distance themselves from the proceeds of corruption. They place those illicit funds in the control of those that they can trust - not strangers.

Family members and close associates of a PEP are also defined in the **Definitions of the National Savings (AML and CFT) Regulations 2020** as:

“Family member” of a politically exposed person includes—

- (i) a spouse of the PEP; or*
- (ii) lineal descendants and ascendants of the PEP;*

“Close associate” of a PEP means—

- (i) 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; or*
- (ii) any individual 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; or*
- (iii) an individual who is in an equivalent relationship as a spouse with a PEP; or*
- (iv) an individual who is reasonably known to be closely connected with a PEP for any other reason, either socially or professionally.*

Is Enhanced Due Diligence applicable to PEPs in all circumstances?

CDNS will be required to undertake enhanced due diligence as described above under the following circumstances:

- PEP (& family members and close associates) who is an individual customer
- PEP (& family members and close associates) who is a beneficial owner of a company, legal person or individual owner
- PEP (& family members and close associates) who is a Trustee of a trust
- PEP (& family members and close associates) who is a settler or protector (if any) of a trust
- PEP (& family members and close associates) who is a beneficiary of a trust's income or wealth

The following circumstances **DO NOT** require the application of enhanced due diligence measures, even if the individual is a PEP (and family members and close associates) because in the following situations, the PEP is not the customer nor the beneficial owner:

Authorised representative of a legal person

- For example, authorised representative of a government entity
- **Note:** While enhanced due diligence is not required, the CDNS will still need to identify and verify the identity of the authorised representative, and that the individual is so authorised by his/her organisation.

Non beneficial owner of a company

- The PEP is a director on a board of directors, but there are 9 other directors, and the PEP has only one 1% ownership.
- **Note:** Careful consideration needs to be given to the control test for beneficial ownership. The PEP is still a prominent person, and despite miniscule ownership and limited voting rights, it may still influence other directors or senior management, and thereby control the company.

Procedures to identify a PEP and family member and close associate

Some of the methods for identifying a PEP, which are not mutually exclusive and also may not be limited to the following:

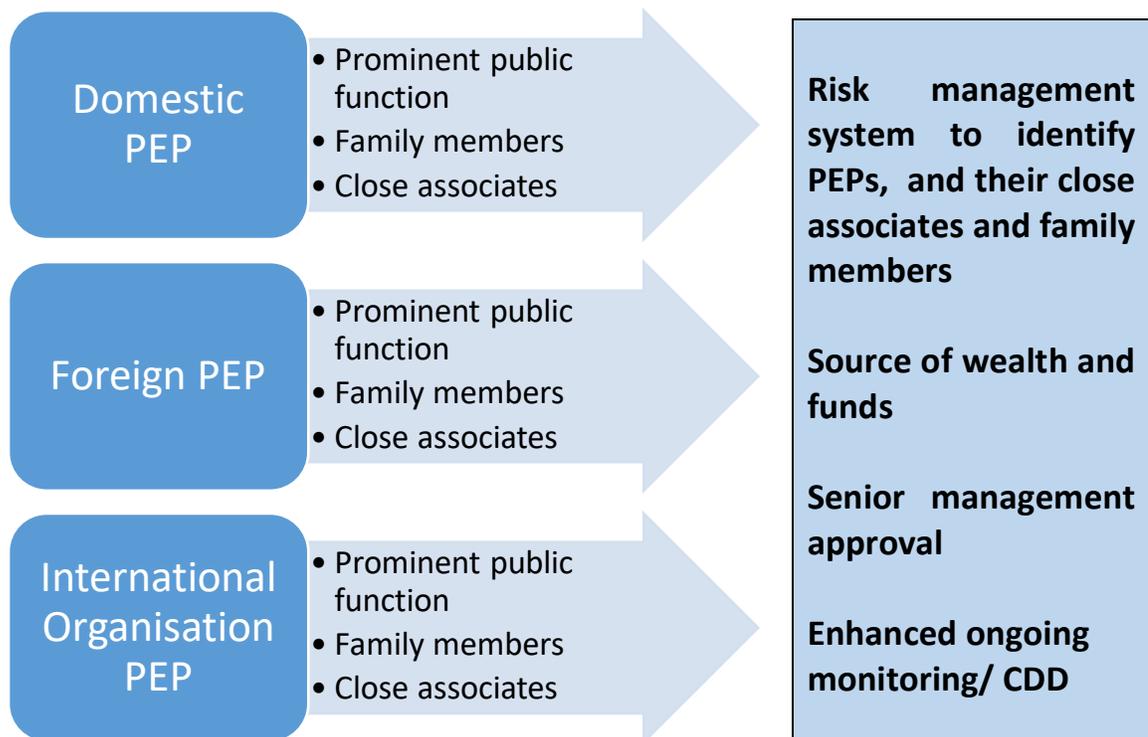
- Local sources
- News and electronic media
- Internet and social media search
- Government notifications / websites
- Commercial risk screen provided

CDNS may not limit to identifying a PEP during the acceptance stage of a new customer, but ongoing monitoring may later identify the customer and/or the beneficial owner as a PEP. This may occur if the individual customer is promoted into a more senior role, self or blood relation decides to take up a political career, or an ownership of a company changes and an individual acquires 25% or more, or some other controlling interest, or for some other reasons.

Enhanced Due Diligence on PEPs, family members and close associates

Regulation 4 (16) (c) and subsequent Regulation 4 (18) of the National Savings (AML and CFT) Regulations 2020 states that CDNS must undertake Enhanced Due Diligence of PEPs, and their close associates and family members, and have risk management systems in place to identify PEPs, which includes whether any beneficial owners are PEPs. This includes whether any such persons are beneficial owners of a company or a trust.

This is summarised in the figure below:



The requirement to obtain information on the source of wealth or source of funds is limited to customers subject to enhanced due diligence under **Regulation 4 (18) of the National Savings (AML and CFT) Regulations 2020**. The requirement is for information only - supporting documentation is not required unless there are doubts on the veracity of the information provided, or because of risk.

Source of Wealth and Source of Funds

PEPs which are subject to enhanced due diligence have additional requirements, namely to take reasonable measures to establish the source of wealth and the source of funds of the customer and beneficial owner identified as a PEP, close associate or family member of a PEP under **Regulation 4 (18) of the National Savings (AML and CFT) Regulations 2020**.

Source of wealth

The source of wealth refers to the origin of the customer's entire body of wealth (i.e., total assets). This information will usually give an indication as to the volume of wealth the customer would be expected to have, and a picture of how the customer acquired such wealth. Although the CDNS may not have specific information about assets, it may be possible to gather general information from commercial databases or other open sources (e.g. internet search).

Source of funds

The source of funds refers to the origin of the particular funds or other assets, which are the subject of the business relationship between the customer and the CDNS as part of the business relationship.

While all PEPs are subject to enhanced due diligence, they are not all high risk. Depending on the risk of the PEP customer, the level of due diligence will vary. There is no explicit requirement for verification of source or wealth or funds. However, for PEPs, taking reasonable measures may require verification of source of wealth and funds. If there is an adverse news report on a PEP (or family members and associates), then more due diligence would be required as compared to one that has no negative news.

Further, if CDNS has doubts that the stated source of wealth or funds may be incorrect, then it should request documents to confirm source of wealth or funds. For example a financial statement, or taxation return. Unlike for ID documents, these do not need to be original or certified true copy, unless CDNS has doubts on the veracity of the documents provided.

The Table below provides some examples of acceptable sources.

Information and verification of source of wealth or funds			
a) Employment Income <ul style="list-style-type: none"> Last month/recent pay slip; 	b) Business income/ Profits / Dividends <ul style="list-style-type: none"> Copy of latest audited 	c) Savings / deposits/assets/ property/ <ul style="list-style-type: none"> Statement from financial institution Bank Statement 	d) Inheritance <ul style="list-style-type: none"> Succession Certificate. Court Order for Inheritance

<ul style="list-style-type: none"> Annual salary and bonuses for the last couple of years; Confirmation from the employer of annual salary; Income Tax Returns/ Wealth Statement 	<ul style="list-style-type: none"> financial statements; Board of Directors approval Rental statements Dividend statements 	<ul style="list-style-type: none"> Taxation returns Accountant's statements Property ownership certificate Share certificates 	
e) Sale of Property/Business <ul style="list-style-type: none"> Copy of sale agreement/Title Deed 	f) Loan <ul style="list-style-type: none"> Loan agreement 	g) Gift: <ul style="list-style-type: none"> Gift Deed; Source of donor's wealth; Certified identification documents of donor. 	h) Other income/wealth sources: <ul style="list-style-type: none"> Nature of income, amount, date received and from whom along with appropriate supporting documentation. Where there nature of income is such that no supporting documentation is available (for e.g. Agricultural Income) Bank Statement may be obtained.

Example of Enhanced Due Diligence applied to Family member of PEP

Pakistani abroad who is the son of a PEP.	
Steps to complete Enhanced CDD	How this applies to the example
1. Customer information i.e. the nature and purpose of the proposed business relationship	Wealthy Pakistani living in Europe and wants to expand his investment portfolio. He is on the board of directors for businesses in Pakistan and overseas. His father is a well-known politician in Pakistan. He is interested in opening account in CDNS Pakistan.
2. Account Opening Form	<p>Regulation 4 of the National Savings (AML and CFT) Regulations 2020</p> <p>Obtain and verify names of customer, date of births and address</p> <p>CDNS asks the investor to provide identity information (including proof of current address).</p> <p>As he lives overseas as well as in Pakistan, he presents his NADRA NICOP and submits its copy for record.</p>

		CDNS checks the details using the NADRA database by paying a small fee. The CNICD details are verified in NADRA.
3.	Obtain and verify names of beneficial owners	Regulation 4 of the National Savings (AML and CFT) Regulations 2020 The investor is also the beneficial owner. There is nothing to indicate that he is buying for someone else, and he has already acquired other properties in Pakistan. Although as a safe measure, the CDNS asks whether he is buying for another person.
4.	Name screening	Regulation 7 of the National Savings (AML and CFT) Regulations 2020 CDNS conducts search from NACTA/MOFA designated lists. CDNS uses commercial screening and independent sources to screen the customer
5.	Assess the ML/TF risk of customer	Regulation 3 of the National Savings (AML and CFT) Regulations 2020 An Customer Risk Assessment template is made of customer risk based on following: <ul style="list-style-type: none"> • Sanctions screening: His name and his parents were checked against the Ministry of Foreign Affairs' list and Ministry of Interior's list of proscribed entities - all okay, as it did not return a match. A check also was made of the UN Security Council's consolidated list, which also did not return any match. • Customer risk: A google search yielded no negative results - just confirmed customer is a family member of a PEP. Should be marked High risk as a PEP. • Geographic risk: standard risk - while customer is based both in Pakistan and Europe (being APG / FATF members respectively) • Services: standard risk • Delivery channel: high risk as non-face to face service may be requested in future.
6	Source of wealth/income	Regulation 4 (18) of the National Savings (AML and CFT) Regulations 2020 There is a need to establish the source of funds and wealth as he is a family member of a PEP. The customer provides the details of his accountant based in Pakistan. The accountant confirms the source of both wealth and income by providing his tax return in Europe and tax return in Pakistan.
7	Completion of Account Opening Form / Formalities	Regulation 4 (18) of the National Savings (AML and CFT) Regulations 2020 If AOF has been completed satisfactorily, CDNS may proceed to accept the application of the person and recommend to senior management

8	Senior management approval	<p>Regulation 4 (18) of the National Savings (AML and CFT) Regulations 2020</p> <p>Senior approval required as high risk because of PEP and non-resident customer. (The seniority level should be clearly defined and approved by CDNS)</p>
9	Start of Relationship	Customer relationship is established and the account is opened
10.	Enhanced Ongoing CDD/monitoring	<p>Regulation 4 (18) of the National Savings (AML and CFT) Regulations 2020</p> <p>His details will need to be updated if he uses products or services of CDNS again in the future. A note is made on his customer file as an action item i.e. check for any changes in the customer's details.</p>

Risk Based Approach to Enhanced Due Diligence

It is important also to note that PEP is one reason why enhanced due diligence may apply, but not the only factor. As required under **Regulation 4 (16) of the National Savings (AML and CFT) Regulations 2020**, Enhanced Due Diligence may apply in the absence of a PEP, or for reasons additional to the presence of a PEP i.e.

- (a) *business relationships and transactions with natural persons or legal persons and legal arrangements when the ML/TF risks are higher*
- (b) *business relationships and transactions with natural persons or legal persons and legal arrangements from countries for which this is called for by the FATF.*
- (c) *PEPs and their close associates and family members.*