

### Introduction

Securities and Exchange Commission of Pakistan (SECP) vide S.R.O. 921 (I)/2020 dated 28 September 2020 notified Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2020 ["Regulations"]. These Regulations **repealed** earlier Securities and Exchange Commission of Pakistan (Anti Money Laundering and Countering Financing of Terrorism) Regulations, 2018 ["Repealed Regulations"] and are effective immediately from the date of notification.

These Regulations applied to regulated person which includes securities brokers, futures brokers, Insurers, Takaful Operators, NBFCs and Modarabas regulated by SECP.

This publication highlights changes in these Regulations in comparison with the Repealed Regulations.

### Key Definitions

Certain key definitions are given below

#### Close associate of Politically Exposed Person ["PEP"]

The concept of close associate of PEP existed earlier but there was no clear definition to determine **close associate of PEP**. Now, as per Rule 3(1)(g) it has been defined as an individual:

- known to have **joint beneficial ownership** of a legal person/ arrangement or any other **close business relations** with a PEP;
- who have beneficial ownership of a legal person/ arrangement known to have been set up for the benefit of a PEP;
- who is reasonably known to be **closely connected** with the PEP for any other reason, including **socially or professionally**.

#### Family Member of PEP

As per Rule 3(1)(m) it includes spouse, lineal ascendants, descendants and siblings of PEP (i.e. grandfather, grandmother, mom, dad, **brother, sister** and children.) This is similar to the definition of relative included in Section 208 of the Companies Act, 2017 for related party.

#### Senior Management

The definition of "senior management" as per Rule 3(1)(t) has been broadened to mean any officer or employee of the reporting entity with sufficient knowledge and **authority to take decisions affecting its risk management** which is inclusive of already specified officers.

### Applicability of Customer Due Diligence [CDD] on existing customers

As per Rule 20 now, regulated person has to **block accounts** without/ expired identity documents which may be removed only after submission and verification of valid identity documents. Also, **no withdrawals are allowed** to customers whose accounts are dormant or in-operative, until their account is activated.

### Simplified Due Diligence [SDD] when to apply

As per Rule 23 Regulated person is allowed to apply SDD measures where low risk is identified. The following prescribed basis to rate customer as low risk has **now been deleted**:

- regulated person and banks;
- public listed companies;
- insurance policies for pension schemes;

- life insurance policies;
- group insurance policies;
- pension superannuation; and
- defined/ limited financial products or services

### Requirements for Targeted Financial Sanctions [TFS] Obligations

As per Rule 25 a new requirement which requires regulated person to undertake TFS obligations, including:

- develop mechanisms, processes and procedures for screening and monitoring customers and beneficial owners/ associates of customers to detect any matches with the stated designated/ proscribed persons.
- If positive or potential match is found, it shall immediately:
  - freeze funds** and assets;
  - prohibit from making any funds;
  - Reject transaction if the relationship has not commenced.
- File STR for positive or potential match; and
- Prohibited to provide financial services to prescribed and designated entities etc.

Reporting of information related to STRs by regulated person under these Regulations on **bi-annual basis** to the Commission and AML Department has been done away with.

### Penalty

As per Rule 31 any contravention is now made a **cognizable offence**, including imposition of monetary and administrative penalties, including on directors, senior management and officers of the regulated person.

In the repealed Regulations, it was only restricted to monetary penalty as shown under:

Limit of Penalty	If contravention is a continuing one
Up to Rs. 10 million	Up to Rs. 100,000 per day

### Documents prescribed for due diligence

As prescribed in Annex 1 of Regulations, for due diligence purposes, photocopies of identity documents now also needs to be verified through **Biometric verification** and certain additional information like full name, father name, mother maiden name, nationality etc. shall also be obtained.

Now, **Government entities accounts** can only be opened in the **personal names** of a government official on production of a **special resolution** or authority from the concerned department or ministry.

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