KPMG Taseer Hadi & Co.
Chartered Accountants

NATIONAL SAVINGS SCHEMES (AML AND CFT) RULES, 2019

Publication date: 11 April 2020

S.R.O. (I)/2020 – Effective from 23 January 2020

Introduction

National Savings Schemes (AML and CFT) Rules, 2019 ["Rules"] apply to **all offices** and **persons responsible** for the **issuance, management, marketing, registration**, replacement, sale and discharge of the instruments **issued by** offices of issue.

- **Office of Issue** ["OI"] includes National Savings Centers.
- **Controlling Office** ["CO"] means head offices of National Savings, State Bank of Pakistan Banking Services, and Pakistan Post Office.
- **politically exposed person** ["PEP"] means any person entrusted with a **prominent public function** by the state of Pakistan, a foreign country or an international organization **and includes** heads of state or government and members and senior officials of legislature, judiciary, executive, military and regulatory authorities and senior executives of corporations, departments or bodies that are owned or controlled by the state.

Following is a synopsis of these Rules.

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

Rule 5

- OI is required to **carry out CDD** when:
  - **Establishing** business relationships.
  - Dealing with **occasional and walk-in customers**.
  - There is **suspicion of ML/TF risk**.
  - There are **doubts about the accuracy** of existing customer identification data.
- OI to **verify** the identity of **occasional** and **walk-in-customers** using independent source of information, i.e. NADRA verification system (Verisys) or **biometric identification system** (Biosys).
- OI to conduct **ongoing due diligence** on the business relationship, including **scrutinizing** transactions and ensuring **up-to-date** information is kept.
- OI to maintain a list of accounts closed **due to negative verification** of customer identity.
- CO is required to:
  - Develop SOPs to review the **adequacy of information** obtained in respect of **customers and beneficial owners.**
  - Establish criteria for **identifying and assessing risks** on an on-going basis.
  - Perform CDD measures for **existing customers** based on **materiality and risk**.
- OI is required to ensure:
  - Compliance with **guidelines issued by Ministry of Foreign Affairs** for implementation of UNSC sanctions.
  - Enhanced due diligence ["EDD"] is performed for **customers with FATF high risk** jurisdictions or countries.
- Central Directorate of National Savings ["CDNS"] may **rely on third party** to conduct CDD on its behalf provided that CDNS:
  - **Immediately** obtain information relating to identification of customer and beneficial owner; and
  - Take steps to satisfy itself:
    - That copies of identification **data will be made available** from the third party upon request; and
    - That **third party is regulated** and has measures in place for compliance with CDD and record-keeping requirements.
    - **Maintain data confidentiality** by having non-disclosure agreement with the third party.
- In relation to **NGOs, NPOs and charities**, OI is required to:
  - Conduct **EDD of the customer**.
  - Ensure that business **relationship is lawful**.
  - Issue the instruments in the name of the relevant NGO, NPO or charity.
  - Conduct **comprehensive CDD and KYC** of the **authorized agents** of the **governing body** of the trust, NGO, NPO or charity and ensure they are not affiliated with any **proscribed individual or entity**.
- In relation to **PEPs** and their **close associates** or **family members**, OI is required to:

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- **Devise mechanism** to determine if a customer or beneficial owner is a PEP;
- **Senior management** to approve **establishing business relations** where the customer or a beneficial owner is a PEP;
- Establish **source of income** of customers and beneficial owners identified as PEPs; and
- Conduct **enhanced monitoring** of business relations.

- In relation to **domestic PEPs**, in addition to performing the CDD measures, OI is required to take measures to determine whether a customer or the beneficial owner is such a person.

> ***Comments***
>
> *In these Rules emphasis has been placed on PEPs, we would suggest that SBP or such other governmental agency should **develop**, maintain and regularly update a **database for such persons**, which should be made available to the senior management of banks, financial institutions and Central Directorate of National Savings etc.*

- OI to perform **EDD** where the **ML/TF risks are higher**.
- OI not to open or maintain **anonymous or fictitious accounts**.
- Where OI **form suspicion of ML/TF** and believe that performing the CDD process will **tip-off the customer**, they may not pursue the CDD process and instead **file an STR with FMU**.
- Where OI is not able to **satisfactorily complete CDD** measures no account to be opened or any service be provided and if the **circumstances are suspicious** consider filing of an STR.

Documents - *to be provided by customers*

- **Every customer**, be it a natural / legal person, company, body corporate, trust, clubs' societies, associations, NGOs, NPOs, charities, minor and government institutions are required to provide the following information, where applicable, **before establishing business relationship** with an OI, namely:
  - **Full name** as per identity or registration documents
  - national identity card, passport, or other **identity card number**
  - registration or **incorporation number** of business, if applicable
  - **residential address**, telephone numbers and e-mail, if available
  - **business address**, telephone numbers and e-mail, if available
  - **date** and **place of birth**
  - date and **place of registration** or incorporation of business, if applicable
  - Nationality
  - national tax number **(NTN)**, if applicable
  - **nature of business** and location, if applicable
  - sources of earnings
  - **customer's net worth** in respect of legal persons, legal arrangements and high-risk customers
  - annual income
  - Ownership and **control structure** of customers
  - **Resolution of governing body** specifying the persons authorized to open and operate the account.
  - Instrument / Byelaws / rules governing the institution.
  - Identity of **ultimate beneficial owners.**

Responsibilities of Office of Issue & Controlling Office

Rule 3

OI its offices and employees are required to:

- Implement **controls, policies and procedures** in order to comply with the provisions of the AML Act and its rules and regulations.
- **Report suspicious transactions** through a report called suspicious transactions report ["STR"] to Financial Monitoring Unit ["FMU"].
- Generate currency transaction report **["CTR"]** for every cash transaction of the notified threshold.
- Pay special attention to the **patterns of transaction, history and profile** of the customers and on any suspicion, decide to **report such transaction** to concerned authorities (i.e. Transaction Monitoring).

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- **Do not disclose** to any person the fact of filing of an STR or CTR with FMU.
- Ensure that national ML/TF risk assessment prepared by FMU is **incorporated into its internal risk assessments**.

CDNS is required to:

- **Implement mechanism** to identify and assess **money laundering / terrorist financing ["ML/TF"] risks** that may arise in relation to the development of new products, and the use of new or developing technologies.
- Undertake risk assessments prior to the launch of new products and use of new technologies and take appropriate measures to mitigate these risks.

Risk Assessment

Rule 4

CO is required to:

- **Identify ML/TF risks** in respect of new product and business practices and use technology to address those risks and **establish criteria** for prevention of such activities.
- **Maintain human resource** to comply with the provision of AML Act.
- **Identify, assess and understand** their ML/TF risks for customers by:
  - **Documenting** their risk assessments.
  - Considering all the relevant **risk factors** and the appropriate level and **type of mitigation** to be applied.
  - Keeping these **assessments up to date**.
  - Have appropriate mechanisms to **provide risk assessment information** to relevant authorities.
- Have policies, controls and procedures, to manage and mitigate the risks and monitor the implementation of those controls.
- Ensure that national ML/TF risk assessment prepared by FMU is **incorporated into its internal risk assessments**.

Record Keeping

Rule 6

OI is required to **maintain all necessary records** in paper or electronic form, on all transactions, including records of identification data for **not less than ten (10) years**.

Internal Controls, Compliance & Audit

Rule 7

- CDNS are required to have controls, policies, and procedures in place and obligation to file STRs and CTRs with FMU.
- CO is required to **develop AML and CFT compliance program** through the following:
  - **Appointment of a senior management** level officer as compliance officer.
  - Ensuring that the compliance officer has **timely access to the information** required to discharge their functions.
  - Ensuring establishment of **high standard screening process** for hiring employees.
  - Including compliance and AML/CFT related responsibilities in **performance indicators** of responsible staff.
  - Regularly assessing **working strength** of the compliance function.
  - Devising **appropriate internal mechanism** for taking action against negligent employees.
  - Taking appropriate measures against employees **found involved in ML/TF**.
  - Maintain an **independent audit function** reporting **directly to the supervisory board**

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Capacity Building

Rule 8

- CDNS is required to develop and implement **annual training programs** for officers and employees.
- National Savings may acquire or develop **comprehensive AML/CFT training programs and tests**, with clear timelines

Comments

The regulator may introduce eKYC and take measures to expedite the process of documenting / transforming the manual data / records of National Savings in electronic mode through a centralize data management system.

*Further, a robust **software for AML / KYC** on**boarding** and **transaction monitoring** may be purchased and implemented with the aid of **trained and skilled AML specialist**. AML, software will play a pivotal role in implementing strict compliance with the AML laws and regulations as required by FATF.*

Supervisory Board

Rule 9

- The Finance Division to constitute National Savings AML and CFT Supervisory Board. The **composition of the Board** shall be as follows, namely:
  - Additional Secretary, **Finance Division** Chairman.
  - Representative of **SBP** not below a BPS-20 or equivalent officer Member.
  - Representative of **SECP** not below a BPS-20 or equivalent officer Member.
  - Representative of **FMU** not below a BPS-20 or equivalent officer Member.
  - Joint Secretary, **Finance Division** Member-cum-Secretary.
- Board is required to **devise its SOPs** for supervision of CDNS to ensure compliance with AML and CFT requirements **within two (2) months** of the commencement of these rules.
- **Board will have powers** to:
  - **Issue SOPs**, and **demand receipt** of management information system.
  - **Direct CDNS** to take all reasonable measures **to ensure compliance** with relevant laws.
  - **Compel production of any information** it may require for the discharge of its responsibilities.
  - **Engage chartered accountant firms** to conduct onsite examinations.

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