



Time Securities (Pvt.) Ltd.
TREC HOLDER
PAKISTAN STOCK EXCHANGE LIMITED



INTERNAL CONTROL SYSTEM AND COMPLIANCE FUNCTION

POLICY, PROCEDURES & MECHANISM

2.0 VERSION

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**Extract of Board Resolution passed in the Board of Directors held on December 08, 2020
of Time Securities Private Limited.**

The Chief Executive Officer informed that the management has revised the policy and procedures on Internal Control System & Compliance Function in the light of Guidelines issued by SECP on Internal Control System & Compliance Function August 31, 2017 and, PSX rulebook updated as on September 08 2020, as there is requirement of SECP. In this respect management of TSPL amended/updated its previous Policy, Procedures & Mechanism as policy version 2.0 and required approval of the Board.

The Board of Directors discussed in detail and considered the updation/amendment to meet the Regulatory requirements. The Board unanimously approved the policies and passed the resolution as follows.

“RESOLVED that the Policy, Procedures & Mechanism of Internal Control System & Compliance Function in Light of Guidelines issued by SECP on Internal Control System & Compliance Function August 31, 2017 and PSX Rulebook updated as on September 08, 2020 be and here by amended/updated”.

“FURTHER RESOLVED that Chief Executive Officer of the Company be and it hereby authorized to take necessary action to ensure the implementation of the amended/updated policies and procedures in this regards”.

Muhammad Anis Silat,
Chief Executive Officer.

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Foreword

This Document lays down the Internal Control and Compliance Function Policies and Procedures to be followed by personnel working in each functional area. Internal Control is a mechanism by which an organization's resources are directed, monitored and measured it basically involves everything that controls risks to an organization. These Guidelines have been framed to ensure organization's objectives in operational effectiveness and efficiency, reliable financial reporting and to ensure that TSPL has an efficient Internal Control system which would lead to its betterment in future. It is company's endeavor to ensure compliance in letter and spirit to the regulations under Guidelines for Internal Control System and Compliance function, 2017 and the requirements as per the regulators. However, as part of our commitment for continual improvement, each reader and follower of this manual is encouraged to identify improvement opportunities and bring them to the attention of the appropriate authority for evaluation and subsequent incorporation in the manual.

Each reader is also urged to identify those activities that may have undergone a change since the introduction of the manual, as well as new activities that have not been included and obsolete activities that still form a part of the document but are not relevant in the current context and bring them to the immediate attention of their supervisors for appropriate modification in the policy.

Policy Compliance

Consistent compliance with this policy is essential to its effectiveness. The Company including all Staff, Management and Executives are expected to adhere to this policy. Internal Audit and Compliance Department will monitor and assess the compliance of all Branches and report quarterly to the Board of Directors. Non-Compliance or breach of this policy may result in Disciplinary action.

Policy Revision

The Internal Control system and Compliance function Policy & Procedures is reviewed every year or at planned intervals whenever material changes occur to reflect the regulatory requirements or whenever new Guideline is issued on Internal Control System and Compliance function by SECP.

1 Introduction

1.1 Purpose

The purpose of this document is to lay down the Internal Control policies of Company in order to create awareness among all relevant staff members and all Department Heads about Internal Control System and Compliance function and the ways through which it can be effectively implemented and to ensure compliance with the Internal Control System and Compliance Function Guidelines, 2017.

1.2 Scope

The scope of this document is to implement an adequate internal control system and compliance function, commensurate with the size and nature of services performed. To promote control structure and awareness among all the relevant staff members and department heads regarding Internal Control system and compliance function along with its policies and procedures and to cover basic internal accounting controls and risk management areas with the intent to protect the interest of the investors and also for the smooth running of the business.

1.3 Responsibility

Responsibility for approving the manual will lie with the BOD. Responsibility for ensuring implementation of the policies and procedures laid down in this manual will lie with the Compliance Officer. The Compliance Officer of the company will be owner and custodian of this manual. The owner takes the ultimate responsibility for maintaining this manual to keep it updated according to changing needs of the organization and in response to changes in applicable regulations. No individualistic practices that are in conflict or are inconsistent with the contents of this manual will be allowed.

1.4 Review and Changes

Any changes in laws and regulations may also trigger a review of this policy document. The Compliance Officer of TSPL is responsible for keeping track of all regulatory pronouncements applicable to this policy. He will advise the BOD accordingly to initiate a review of the policies whenever applicable.

Any changes in the policy will be effected only upon approval by the Board of Directors at the time of change the version number and date from which the document is effective will be changed as follows.

Version Number

The first issue of the document will bear the Version Number as 1.0. For any minor change in the document the version number will increase to 1.1, 1.2 and so on. In case of a major change in the system wherein the entire procedure needs to be re-written and re-issued, the new issue will be released with version number 2.0. Earlier versions will be marked obsolete and withdrawn from circulation.

Effective Date

This is the date from which the document is effective and this is the date from which implementation and compliance to the document is expected. The document may be released earlier but with an effective date, which is later, which means that the compliance to the procedure is to start only from the date mentioned on the document.

1.5 Date of Next Review

TSPL will ensure that this policy document is reviewed at least once in a year so as to keep pace with the developments in the regulations and market. The next date of review will be within one year from the date of effect.

1.6 General Definition

Internal control is defined as follows;

“Internal Control is a process, affected by an entity’s Board of Directors, Management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting and compliance.”

1.7 Internal Control Principles

- i. The Company demonstrates a commitment to integrity and ethical values.
- ii. The board of directors demonstrates independence from management and exercises oversight for the development and performance of internal control.
- iii. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of objectives.
- iv. The Company demonstrates a commitment to attract, develop, retain competent individuals in alignment with the objectives.
- v. The Company holds individuals accountable for their internal control responsibilities in the pursuit of objectives.
- vi. The Company specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.
- vii. The Company identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.
- viii. The Company considers the potential for fraud in assessing risks to the achievement of objectives.
- ix. The Company identifies and assesses changes that could significantly impact the system of internal control.
- x. The Company selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- xi. The Company selects and develops general control activities over technology to support the achievement of objectives.
- xii. The Company deploys control activities through policies that establish what is expected and in procedures that put policies into action.
- xiii. The Company obtains or generates and uses relevant, quality information to support the functioning of internal control.

- xiv. The Company internally communicates information, including objectives and responsibilities for internal control, necessary to support the functioning of internal control.
- xv. The Company communicates with external parties regarding matters affecting the functioning of internal control.
- xvi. The Company selects, develops, and perform ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.
- xvii. The Company evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.

A Company Operations (Both at Head Office and Branches)

2 Account Opening, KYC/AML Procedures & Mechanism

- i. Company maintains a list of all new and existing customers and also keep a record of their account opening forms along with the KYC and CDD record of each customer.
- ii. Effective *Know Your Customer (KYC)* and *Customer Due Diligence (CDD)* policies and procedures are developed by the company in accordance with the Regulations & Guidelines issued by Securities & Exchange Commission of Pakistan
- iii. KYC and CDD policies and procedures contains the following information and documents and will be updated in accordance with changes in applicable law:

Individual/Sole proprietorship	Partnership	Institutions/Corporates
▪ Copy of CNIC of Principal and Joint holders/ NICOP for Non-Residential Pakistanis. ▪ Passport for Foreign Nationals. ▪ Business/Employment Proof. ▪ NTN Certificate (If available). ▪ Nominee details (Not in case of Joint holders). ▪ Present and permanent address details with supports (where possible). ▪ Email address of the customer.	▪ Name of Partnership and Partners. ▪ Copy of CNIC/NICOP of all Partners. ▪ Partnership Deed. ▪ Copy of Latest Financials. ▪ Certificate of Registration (If registered partnership firm). ▪ NTN Certificate. ▪ Address of place of Business. ▪ Authorized partner to operate the account. ▪ Mobile number and email address of the authorize person.	▪ Name of Directors and Officers. ▪ Registered Address. ▪ Copy of CNIC/NICOP of all Directors and Authorized Signatories. ▪ Certificate of Incorporation. ▪ Certificate of Commencement of Business. ▪ NTN Certificate. ▪ Tax exemption certificate where applicable. ▪ Certified copy of Board Resolution.

		▪ Memorandum & Articles of Association/ Bye Laws/ Trust Deed. ▪ Audited Accounts of the Institutions/ Corporate.
Trust	Club Societies and Associations	Executors/Administrations
▪ Copy of CNIC of all Trustees. ▪ Certified copy of Trust Deed. ▪ Copy of Latest Financials of the Trust. ▪ Document Evidence of Tax Exemption (If any). ▪ Trustee/ Governing Body Resolution.	▪ List of Members of Governing Body. ▪ Copy of CNIC/ NICOP of Members of Governing Body. ▪ Certified Copy of Certificate of Registration. ▪ Certified Copy of by-laws/ Rules and Regulations. ▪ Copy of Latest Financials Of Society/Association. ▪ Resolution of Board/ Governing Body.	▪ Copy of CNIC of all Executors/ Administrators. ▪ Certified Copy of Letter of Administration.

S No.	Type of Customer	Minimum Documents Required for CDD
1	Individuals	A photocopy of any one of the following valid identity documents: i. Computerized National Identity Card (CNIC)/Smart National Identity Card (SNIC) issued by NADRA. ii. National Identity Card for Overseas Pakistani (NICOP/SNICOP) issued by NADRA. iii. Form-B/Juvenile card issued by NADRA to children under the age of 18 years. iv. Pakistan Origin Card (POC) issued by NADRA. v. Alien Registration Card (ARC) issued by National Aliens Registration Authority (NARA), Ministry of Interior (local currency account only). vi. Valid Proof of Registration (POR) Card issued by NADRA. vii. Passport; having valid visa on it or any other proof of legal stay along with passport (foreign national individuals only).
2	Joint Account	i. A photocopy of any one of the documents mentioned at Serial No. I. ii. In the case of joint accounts, CDD measures on all of the joint account holders will be performed as if each of them is individual customers of the Company.
3	Sole Proprietorship	i. Photocopy of identity document as per Sr. No. 1 above of the proprietor. ii. Attested copy of registration certificate for registered concerns. iii. Sales tax registration or NTN, wherever applicable. iv. Account opening requisition on business letter head. v. Registered/ Business address.
4	Partnership	i. Photocopies of identity documents as per Sr. No. 1 above of all the partners and authorized signatories. ii. Attested copy of 'Partnership Deed'. iii. 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. iv. Authority letter from all partners, in original, authorizing the person(s) to operate firm's account. v. Registered/ Business address.

5	Limited Liability Partnership (LLP)	i. Photocopies of identity documents as per Sr. No. 1 above of all the partners and authorized signatories. ii. Certified Copies of: a) Limited Liability Partnership Deed/Agreement. b) LLP-Form-III having detail of partners/designated partner in case of newly incorporated LLP. c) LLP-Form-V regarding change in partners/designated partner in case of already incorporated LLP. iii. Authority letter signed by all partners, authorizing the person(s) to operate LLP account.
6	Limited Companies/ Corporations	i. Certified copies of: a) Resolution of Board of Directors for opening of account specifying the person(s) authorized to open and operate the account. b) Memorandum and Articles of Association. ii. Certified copy of Latest 'Form-A/Form-B'. iii. Incorporate Form II in case of newly incorporated company and Form A / Form C whichever is applicable; and Form 29 in already incorporated companies. iv. Photocopies of identity documents as per Sr. No. 1 above of all the directors and persons authorized to open and operate the account. v. Photocopies of identity documents as per Sr. No. 1 above of the beneficial owners.
7	Branch Office or Liaison Office of Foreign Companies	i. A copy of permission letter from relevant authority i-e Board of Investment. ii. Photocopies of valid passports of all the signatories of account. iii. List of directors on company letter head or prescribed format under relevant laws/regulations. iv. Certified copies of;

		v. Form II about particulars of directors, Principal Officer etc. in case of newly registered branch or liaison office of a foreign company. vi. Form III about change in directors, principal officers etc. in already registered foreign companies branch or liaison office of a foreign company. vii. A Letter from Principal Office of the entity authorizing the person(s) to open and operate the account. viii. Branch/Liaison office address.
8	Trust, Clubs, Societies and Associations etc.	i. Certified copies of: a) Certificate of Registration/Instrument of Trust. b) By-laws/Rules & Regulations. ii. Resolution of the Governing Body/Board of Trustees/Executive Committee, if it is ultimate governing body, for opening of account authorizing the person(s) to operate the account. iii. Photocopy of identity document as per Sr. No. 1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body. iv. Registered address/ Business address where applicable.
9	NGOs/NPOs/Charities	i. Certified copies of; a) Registration documents/certificate. b) By-laws/Rules & Regulations. ii. Resolution of the Governing Body/Board of Trustees/Executive Committee, if it is ultimate governing. iii. Body, for opening of account authorizing the person(s) to operate the account. iv. Photocopy of identity document as per Sr. No. 1 above of the authorized person(s) and of the members of Governing Body/Board of Trustees /Executive Committee, if it is ultimate governing body. v. Any other documents as deemed necessary including its 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. vi. Registered address/ Business address.

10	Agents	i. Certified copy of 'Power of Attorney' or 'Agency Agreement'. ii. Photocopy of identity document as per Sr. No. 1 above of the agent and principal. iii. The relevant documents/papers from Sr. No. 2 to 7, if agent or the principal is not a natural person. iv. Registered/ Business address.
11	Executors and Administrators	i. Photocopy of identity document as per Sr. No. 1 above of the Executor/Administrator. ii. A certified copy of Letter of Administration or Probate. iii. Registered address/ Business address.
12	Minor Accounts	i. Photocopy of Form-B, Birth Certificate or Student ID card (as appropriate). ii. Photocopy of identity document as per Sr. No. 1 above of the guardian of the minor.

Note:

1. For due diligence purposes, at the minimum following information will also be obtained and recorded on KYC (Know Your Customer)/CDD form or account opening form:
 - a) Full name as per identity document.
 - b) Father/Spouse Name as per identity document.
 - c) Mother Maiden Name.
 - d) Identity document number along with date of issuance and expiry.
 - e) Existing residential address (if different from CNIC).
 - f) Contact telephone number(s) and e-mail (as applicable).
 - g) Nationality-Resident/Non-Resident Status.
 - h) FATCA/CRS Declaration wherever required.
 - i) Date of birth, place of birth.
 - j) Incorporation or registration number (as applicable).
 - k) Date of incorporation or registration of Legal Person/ Arrangement.
 - l) Registered or business address (as necessary).
 - m) Nature of business, geographies involved and expected type of counter-parties (as applicable).
 - n) Type of account/financial transaction/financial service.

- o) Profession / Source of Earnings/ Income: Salary, Business, Investment income.
 - p) Purpose and intended nature of business relationship;
 - q) Normal or expected modes of transactions/ Delivery Channels.
2. The photocopies of identity documents will be validated through NADRA verisys or Biometric Verification. The Company will retain copy of NADRA Verisys or Biometric Verification (hard or digitally) as a proof of obtaining identity from customer.
 3. In case of a salaried person, in addition to CNIC, a copy of his salary slip or service card or certificate or letter on letter head of the employer will be obtained.
 4. In case of expired CNIC, account will be opened on the basis of attested copies of NADRA receipt/token and expired CNIC subject to condition that company will obtain copy of renewed CNIC of such customer within 03 months of the opening of account.
 5. For CNICs which will expire during the course of the customer's relationship, company has designed/updated its system which can generate alerts about the expiry of CNICs at least 01 month before actual date of expiry and will continue to take reasonable measures to immediately obtain copies of renewed CNICs, whenever expired. In this regard, company can also utilize NADRA Verisys reports of renewed CNICs and retain copies in lieu of valid copy of CNICs. However, obtaining copy of renewed CNIC as per existing instructions will continue to be permissible.
 6. The condition of obtaining Board Resolution is not necessary for foreign companies/entities belonging to countries where said requirements are not enforced under their laws/regulations. However, such foreign companies will have to furnish Power of Attorney from the competent authority for establishing Business Relationship to the satisfaction of the company.
 7. The condition of obtaining photocopies of identity documents of directors of Limited Companies/Corporations is relaxed in case of Government/Semi Government entities, where company will obtain photocopies of identity documents of only those directors and persons who are authorized to establish and maintain Business Relationship. However, company will validate identity information including CNIC numbers of other directors from certified copies of 'Form-A/Form-B' and verify their particulars through NADRA Verisys. The Verisys reports will be retained on record in lieu of photocopies of identity documents.

8. Government entities accounts will not be opened in the personal names of a government official. Any account which is to be operated by an officer of the Federal or Provincial or Local Government in his/her official capacity, will be opened only on production of a special resolution or authority from the concerned administrative department or ministry duly endorsed by the Ministry of Finance or Finance Department/Division of the concerned Government.
- iv. The company has a control to ensure the retention of the records of the customer's identification their updation on a timely basis.
- v. Senior personnel of compliance function, preferably the Compliance officer gives approval of the opening of account of the customers and prepares a checklist for all the relevant supporting documents. The approval is based on a checklist which covers the major areas of KYC guidelines as well as internal control policy.
- vi. Total number of accounts opened/ client codes are matched by the compliance officer periodically/monthly with the total number of sub-accounts opened in CDC.
- vii. Reasonable steps/checks are taken by the company to assess the correctness of information, provided by customer at the time of opening account.
- viii. There is a standard comprehensive policy for developing customer profile. The policy takes into account all the relevant factors. Customer particulars/ profiles are maintained through appropriate database and remains available to relevant departments of company. The policy is implemented across the board and its implementation is checked by the compliance function.
- ix. There are standard procedures and policy for risk assessment of all existing and prospective customers. Policy covers the identity, nature of income, source of funding, location etc. and based on the outcome of such assessment; customers are categorized as high risk, medium risk or low risk.
- x. There are policies and procedures for conducting enhanced due diligence. The implementation of these are checked by the compliance officer and Internal Audit Department. There are system based controls such as alert for trading beyond specified thresholds and are monitored/ controlled by the Compliance officer and Internal Audit Department.

- xi. Any updation in client's profile is supported by reasonable evidence and the same is reviewed within a reasonable time period by the Compliance function.
- xii. The company has the policy and programs for training of its employees regarding compliance of all relevant laws, regulations, guidelines and other anti-money laundering obligations.
- xiii. The company provides the customer with a risk disclosure document in accordance with the specimen provided by the Securities Exchange containing basic risks involved in trading in securities and risk associated with trading in derivatives and leverage products.
- xiv. Written acknowledgement is obtained from the customer confirming that he/she has understood the nature/ contents of the risk disclosure document and is attached with his/her account opening form.
- xv. Client is provided with the CDC setup report for signatures. Further, a copy of the UIN Post Report is also provided to the Customer to ascertain that consistent and accurate information is entered in all relevant systems.
- xvi. The company has the policy and programs for reporting suspicious transactions and suspicious accounts as per requirements of AML/CFT Regulations, Guidelines and Policy.
- vii. If an account of NRP will be opened by the company on the basis of NRVA Information and any additional information as prescribed in the regulations, such information or any subsequent updations (if any) will be separately maintained along with the list of such accounts and their supporting documents and correspondences made with such customers in their records.
- viii. If company will open an online account of customer by utilizing the services of an authorized entity as per the terms and conditions specified by the Exchange from time to time the company will ensure that the online accounts are opened only after completing all applicable regulatory requirements including conducting required verification and due diligence of customers, collection and submission of documents/information and meeting any other requirements or conditions as may be prescribed by the Exchange or Commission in relation to online account opening.

3 Periodic Reporting to Customers

The adherence of reporting framework with regulatory requirements is ensured by the company's compliance function in terms of frequency, comprehensiveness, authenticity and accuracy.

➤ **Procedures & Mechanism**

- i. This includes compliance with CDC regulatory requirement for sending securities balance report and with Pakistan Stock Exchange (PSX) rule book for account statements on Quarter basis to all the clients.
- ii. The statement includes inter alia the following information for the reporting period;
 - a) Cash ledger statement showing opening and closing cash balances; all receipts and payments of money and settlement-wise money obligation debited or credited to the client account.
 - b) Securities positions as per back office record of the company showing status of available and pledged securities and reconciliation for any differences between back office record and CDS record.
 - c) Securities positions as per CDS record.
- iii. The compliance function checks adherence with reporting framework including maintenance of evidence of sending the Quarterly reports within 15 days of end of each Quarter to customers in the form of courier tracking slips.

4 Account Closing

Company maintains the details of accounts closed during the month and also ensures that it is in compliance with all the regulatory requirements.

➤ **Procedures & Mechanism**

- i. Before closing an account company checks that;
 - a) There is no balance/ securities outstanding against the customers.
 - b) Customer's money has been transferred/ settled.
 - c) No transaction was carried subsequent to account closing date.
 - d) Requisite certificates and clearances such as CGT Closure certificate as prescribed under the applicable regulatory framework have been obtained for closing the account.
- ii. There are clear policies for account closing;
 - a) Settlement of outstanding balance in the client's regular bank account (money and shares/ securities held on client's behalf).
 - b) Criteria for account closing date; whether after settlement or the date of application of account closing.

Adherence with the above policies is checked by the compliance function.

- iii. In case account of the customer is closed, Company also closes the CDC sub account and UIN of the account holder in NCCPL.

5 Controls over Order Acceptance and Execution to ensure Compliance with Regulatory Requirements

There is a clear policy to deal on behalf of a customer.

➤ Procedures & Mechanism

- i. Company does not deal in securities on account of customer without instructions of such customer. Appropriate controls are developed and implemented to ensure this objective including maintenance of evidence of instructions by the customers and matching the trades executed on behalf of customer with the instructions by compliance function on a test basis. For this purpose daily Trade Confirmation is sent to the customer within 24 hours of execution of trade which is a system generated report.
- ii. Authorized personnel (Traders) of company take reasonable measures to execute the orders placed by the customers on the most advantageous terms as expeditiously as practical in the prevailing market conditions.
- iii. All orders placed by customers through telephone are recorded by authorized personnel over dedicated/recorded telephone lines. Orders received in-person from visiting customers are adequately recorded in Books and acknowledgement is also obtained from the customers. Priority is given to outstanding customer orders.
- iv. The chronological register is maintained in electronic form including the logs generated from the system and telephone recording.
- v. Records pertaining to all orders received from customers in writing or through any other document, fax, email, or through any other means will be preserved.

6 Segregation of Duties

There are clear lines of responsibility, authority and tasks that are adequately assigned to employees and accredited representatives.

➤ **Procedures & Mechanism**

- i. There is segregation between front office and back office functions. Accordingly, person responsible or authorized to execute proprietary trades or client trading does not have access to books of accounts and does not have authority to access/ modify the back office record.
- ii. There is an appropriate segregation of duties and information barriers between own account or proprietary trading and customer dealing functions.

7 Trading in Brokerage Operations/Trade review procedures to detect violation with regulations

Trading includes the following components:

- a) Purchase / sale of securities (Ready/futures/OTC).
- b) Settlement of securities.
- c) Purchase / sell / rollover of future contracts.
- d) Rate revision / agreement on rate / relaxations / waivers.
- e) Maintenance of margin (equity).
- f) Transfer of profits on unutilized funds to customers and Maintenance of exposure deposits.

Operational manual has been developed covering the above components.

➤ **Procedures & Mechanism**

- i. There is a control environment and control procedures relating to trade activities. This includes that trades in the customer accounts (over phone, off-site terminal) are executed by the authorized personnel as per the customer account / custody balance in accordance with the defined procedures.
- ii. A should have approved policy and surveillance mechanism to discourage deposit taking (on fixed/promised returns) by its all employees/dealers/accredited representatives (**to be added later**)
- iii. Details of buying and selling are corroborated with the following:
 - a) KAT Sheets.
 - b) Company intimation to customers.
 - c) Trading Telephone recording/documentary evidence of placement of order.

Company have procedures to detect any illegal trading activities e.g. wash trades, insider trading etc. Appropriateness of those procedures are checked and implemented by the compliance function.

- iv. Amount transferred from company's bank account to NCCPL account for settlement of position and transactions from daily NCCPL bank activity report is on the same date. Controls are established for excess/ short payment, if any, and the reason is documented.
- v. Trade procedures ensures that the reconciled authorized orders are executed, recorded, confirmed and settled in the customer's account and company maintains the segregated custody of customer balances to prevent misuse of client funds.
- vi. Company makes sure that funds of clients are not used for company's own benefit. For this, a designated customer bank account (Client Account) is kept segregated from any account holding money belonging to the company and its compliance is checked by the compliance function of company.
- vii. Company keeps records of:
 - a) All amounts deposited into the designated bank account(s), specifying the customers on whose behalf the amounts are held and the dates on which the amounts were received.
 - b) All payments from the designated bank account(s) through cross cheques or other banking channels, the dates of those payments, and the names of the customers on whose behalf the payments are made.
- viii. There are controls over movement of securities from customer account and pledge or deposit of these securities as collaterals as per the customer authorization.
- ix. Daily trade activity reports are sent to the clients through system for verifiable and agreed mode of confirmation of trades and maintenance of client segregated assets where applicable. Verifiable and agreed mode of confirmation is used. The frequency of reporting is in compliance with the regulatory framework.
- x. There is an adequate maintenance of control over reconciliation of balances (custody and account balance with a) customers, b) NCCPL, c) CDC.
- xi. Company ensures that roll forward of future contracts are carried accurately and corresponding margin calls, if any, are made on timely basis from customer. Proper policy of communication and settlement with the Exchange and customer has been prepared.
- xii. There are controls over maintenance of key books and records including order register, trading system generated reports, activity log and customer telephonic trading call logs as per the company's SOPs and regulatory requirements.

- xiii. There is a standard policy over trade activities carried out by the employees of the company, as provided in the licensing regulations, including their written permissions, maintenance of unique identification database stating the particulars of employees and establishment of required monitoring procedures. The compliance function checks its compliance for design and implementation. Control and procedures are established to ensure compliance for design and implementation.

8 Custody, Segregation of Customer's Assets

A documented policy has been developed for controls over custody, segregation of client assets with own assets and controls to prevent misuse of client assets. Separation of the custody of assets helps protect embezzlement, cover up theft, and prevent fraud.

➤ Procedures & Mechanism

- i. Separate maintenance, custody, segregation and settlement of reconciled client assets and client margins (including transfer of profits on unutilized funds to customers) is as per the Company's SOPs and regulatory requirements and there are appropriate controls to ensure the same.
- ii. Clients Assets Segregation Statement (CASS) is prepared on fortnightly basis and is checked by the Compliance Officer;
 - a) Total number of securities held in company's account and in clients' accounts reported in the Statement is matched with the system generated report of the back office system and CDC Account Balance Summary Report.
 - b) Total number of pledged securities under each of the following classifications held in own account and in clients' accounts reported in the Statement with the CDC Pledger Balance Activity Report is matched:
 - Securities pledged with PSX / NCCPL.
 - Securities pledged with banks.
 - c) Total number of securities held in house account and in clients' accounts reported in the Statement agrees with the total number of securities held as per CDC records as reported in the Statement.
 - d) All the securities are reported in the Statement.
 - e) Amount of Trade payables reported in the Statement are matched with the books of accounts as at cutoff date.

- f) Amount of Cash at bank reported in the Statement matches with the amount appearing in the bank statements of clients' bank accounts at cutoff date.
- g) Amount of Trade payables as reported in the Statement agrees with the cash at clients' bank account as reported in the Statement.
- iii. Compliance function ensures the accuracy of CASS and also its timely filing to the Stock Exchange in accordance with the guidelines prescribed by the regulator. For this, the company;
 - a) Keep all clients' monies & securities segregated and secure from its own assets.
 - b) Maintains a separate bank account, with word "clients" in the title to hold clients' money.
 - c) At any point in time, clients' payable as per clients' cash ledger must be supported with equivalent amount of in clients' bank account.
 - d) At any point in time, clients' securities position as per back office record must be supported with equivalent holding balances as per CDS record.
 - e) Any difference is justified through reconciling entries.

In addition to fortnightly un-verified submission, company also submits CASS to PSX within 45 days of close of the financial year, duly verified by the statutory auditor.

- iv. The compliance officer or any other officer regularly monitors the customer assets, movements therein, and prepare reconciliations as required. In case of any discrepancy, the same is reported to the company for taking immediate remedial action. In case the company fails to rectify the position within three business days, the matter will be reported to the Commission and the securities exchange by the compliance officer.
- v. The company ensures that the assets belonging to their clients are kept separated from the assets of the company. For this purpose, the company maintains a Collateral Account under his Participant Account in CDS for all clients. This account is used exclusively for instances where outstanding payment has not been received from clients in respect of securities purchased on their behalf and relevant purchase obligation is to be settled. In such cases, the company is allowed to transfer the securities on the respective settlement date from the respective sub-account to the Collateral Account for a maximum period of three (3) settlement days only to the extent of the trade volume for which the client's payment is outstanding for whatsoever reason and comply with relevant requirements contained in the CDC Regulations. The company, in addition to the electronic reporting of such transfers through ways and means as specified by the Exchange will report the Exchange in writing explaining the reason for utilizing the Collateral Account or for holding client's securities immediately after such transfer. The notice from the company will be accompanied with following documents:

- a) Non-payment notice served on the client through courier, personal delivery method, facsimile, email or properly recorded telephone line, advising him to make payment by the close of banking hours on the next working day after the settlement day and notifying that, otherwise the company will have a right to dispose of the required securities to cover the shortfall in the client's account at client's risk and cost.
- b) Client's sub-account and Collateral Account Activity Report of movement date.
- c) Documentary evidence substantiating the genuineness and circumstances of the reason for non-payment by the client which may include failure of client to pay in time due to non-clearance of client's cheque, any natural calamity, law and order situation, non or delayed functioning of an automated procedure. Provided that for a particular client, the company is allowed to transfer securities from the sub-account of client to the Collateral Account only once in a calendar month.

9 Maintenance of Net Capital Balance/Liquid Capital/BMC Requirements

Company complies with the requirements given in the Third Schedule of the Securities and Exchange Rules 1971, the Securities Brokers (licensing and Operations) Regulations 2016 and the clarifications issued by Securities and Exchange Commission of Pakistan (SECP) for maintaining net capital balance.

➤ Procedures & Mechanism

- i. Compliance function ensures that the calculation of Net Capital Balance (NCB)/ Liquid capital is made in accordance with Schedule II & III of the Regulations. The calculation is also reconciled with the back office record.
- ii. NCB/ Liquid capital is reported to the Stock Exchange in accordance with the guidelines prescribed by the PSX/ SECP.
- iii. Company complies with the requisite Liquid Capital and BMC requirements.
- iv. Company submits an audited Statement of NBC/ Liquid Capital annually till 15 September.
- v. Compliance officer ensures the accuracy and timely filing of the above statements.

10 Brokerage Commission

There is a documented policy for brokerage commission. Company ensures that approved brokerage commission is in accordance with the policy and is charged to individuals, corporates and other clients as per the terms of agreement and policy of the company. Adherence to the minimum brokerage commission rates prescribed by PSX, if any, is also ensured.

➤ Procedures & Mechanism

- i. The compliance officer ensures that commission rates are adequately maintained in the master data list and are approved by the authorized personnel of the company.
- ii. The compliance officer checks the approved rates, and the related IT controls are also implemented and checked on regular basis.
- iii. The compliance officer reviews invoice or bill issued to clients and ensure that the same has been duly reflected in respective clients' ledger as well as ledger of commission income.
- iv. Ledger account of commission income is reviewed to check that if any adjustment is appearing therein. If so, than nature of such adjustment(s) are checked that whether it is used to refund commission to clients.
- v. Commission income appearing in ledger is compared with figures appearing in Audited Financial Statements.
- vi. Ledger account of commission expense is reviewed to ensure if any adjustment is appearing therein. If, so, than nature of such adjustment is checked that whether it is used to adjust the commission.
- vii. List of dealer/agent wise commission is reviewed to check un-accredited representatives of unauthorized branches.
- viii. There is a clear policy of disclosing the applicable brokerage commission to the customer at the time of account opening any change in the cost charged to the customer is communicated to the customer in advance.

11 Conflict of Interest

There are appropriate policies and procedures to minimize conflict of interest between company and its customers. The policies and procedures identify and address situations where a conflict may arise. For example, where the company is also acting as an underwriter for an issue or where company is acting as consultant for an issuer company etc. Similarly conflict arising due to proprietary trading and trading on behalf of client has been also addressed in the policies and procedures.

➤ Procedures & Mechanism

- i. Controls in this regard include prevention from sharing information between staff performing conflicting duties and timely disclosures to clients.
- ii. There are documented procedures to address the above concerns and the compliance officer ensures adherence with the same.
- iii. Where conflict of interest arises between company and its customers, company immediately communicates the same to the clients.
- iv. Company does not take any direct or indirect advantage from the situation and act in the best interest of the customer.
- v. A mechanism, including standard policies are also in place to resolve any conflict of interest.
- vi. Company makes appropriate disclosure to customers of potential areas of conflict of interest which could impair its ability to render fair, objective and unbiased service. Compliance function ensures adherence to the same on regular basis.
- vii. In case of any breach of policies by employees or accredited representatives, proper investigation will be carried out and action will be taken by the company.

12 Confidentiality of Information

There are appropriate policies and procedures including IT controls to ensure confidentiality of information and also to ensure that non-public information has not been misused.

➤ **Procedures & Mechanism**

- i. Company has established adequate mechanism including policies and physical apparatus designed to prevent the improper or unintended dissemination of market sensitive information from one division/department to another and to ensure the following:
- ii. Company ensures that individuals making proprietary investment decisions are not trading on the basis of material nonpublic information obtained from another department or unit of the company.
- iii. Company and its employees and accredited representatives neither profit nor seek to profit from confidential information, nor provide such information to anyone with the objective of making profit for itself or for its customers.
- iv. Company and its employees and accredited representatives refrains from trading on the basis of confidential information, and its employees and accredited representatives does not reveal such information outside the company.
- v. Company and its employees and accredited representatives does not disclose or discuss with any other person other than normal course of business or make improper use of the details of investments of customers and other information of confidential nature of a customer.

13 Controls over Trading by Employees including Proprietary, Employees and Associates Trading through other Brokerage Houses

Company had formulated policies and procedures in accordance with the Regulations for trading by employees, accredited representatives, their spouses and dependent children. There are controls and mechanism, including monitoring the trading activities of these persons to ensure that the below mentioned Procedures & Mechanism are being implemented.

➤ **Procedures & Mechanism**

- i. Disclosure by employee and accredited representative of any securities held by employee, spouse and /or dependent children along with details of their accounts with the company. Such information is reported to the compliance officer.

- ii. Prior written approval for trading by employees and accredited representatives for their own personal accounts or on behalf of their spouses and/or dependent children.
- iii. Approval or rejection of an application seeking trading or investment in securities by employees and accredited representatives.
- iv. Periodic disclosure of securities held by employees and accredited representatives and their spouses and dependent children, and reporting of actual transactions, including volume, date and price, in a timely manner.
- v. Restriction on employees and accredited representatives from deriving any benefit or personal advantage from information which is generally not available and which is obtained by reason of or in the course of their employment with the company.
- vi. Prescribing a minimum holding period and discouraging frequent short-term trading or trading for speculative purposes.
- vii. Prescribing trading windows and blackout periods to restrict the misuse of confidential information.
- viii. Compliance of employees and accredited representatives in accordance with the requirements specified by the securities exchange and its code of conduct.
- ix. Company had formulated policies and procedures for execution of proprietary trades in terms of secrecy and trading ahead of outstanding orders of customers, and also identifies the persons who are authorized to operate the proprietary trading account.
- x. The proprietary trades of the company are executed through designated terminals and by designated systems operators.

14 Customer Complaints

Internal policies and procedures for customer complaints have been developed by the management of the company which covers the following:

- a) Person responsible for handling of customer complaints.
- b) Timeline for resolution of customers' queries.
- c) Periodic review and monitoring by an appropriate authority for proper handling.
- d) Appropriate remedial action of customer complaints.
- e) Unresolved complaints beyond required timeline.

➤ **Procedures & Mechanism**

- i. Quarterly Customer Gravancis Report regarding number of complaints received, redressed and unresolved is submitted to the PSX within 15 days of end of each quarter.
- ii. Special attention is given for any unusual or frequent complaints which indicate control deficiency.
- iii. The company has controls over customer complaint records and its related resolutions.

15 Short Selling Requirements

There is an adequate framework developed by the company for supervision and monitoring of short selling activities to ensure its compliance with the Regulations and the conditions specified by the securities exchange.

➤ **Procedures & Mechanism**

- i. Short Sale under Ready Delivery Contract Market will be executed through a special Short Sale order window designated in the Trading System for Short Sale in the manner and procedure as prescribed by the Exchange from time to time.
- ii. Short Sale will only be permissible on Uptick or Zero-Plus Tick, In addition Short Sale will also be allowed without Up-tick or Zero-Plus Tick up to the following extent:
 - a) **UIN-Wide Position:** A UIN will be allowed to make short sale to the maximum extent of 2% of average daily turnover of the respective Security of previous one month.
 - b) **Securities Broker-Wide Position:** A Company for its all UINs including its clients' positions will be allowed to make short sale to the maximum extent of 4% of average daily turnover of the respective Security of previous one month.
 - c) **Market-Wide Position:** All Companies on cumulative basis will be allowed to make short sale to the maximum extent of 40% of average daily turnover of the respective Security of previous one month.

- iii. The exemptions mentioned in above will not be available in the following cases:
 - a) When the price of a security declines up to 2.5% from the Closing Price of the previous trading day, the exemptions will not be available for the remainder of the day.
 - b) When lower circuit breaker, becomes applicable on the Closing Price of a security, the exemptions will not be available for the next two trading days.
 - c) When lower circuit breaker, becomes applicable on the Closing Price of a Security consecutively for five trading days, the exemptions will not be available for next fifteen trading days after the fifth trading day.
- iv. Company does not make any Blank Sale in the Ready Delivery Contract Market either for its own account or for its clients.
- v. Company will not make a Short Sale on its proprietary account or client's account unless such short sale:
 - a) Is made at an Uptick or Zero-Plus Tick; except as stated in policy above.
 - b) Is declared as a Short Sale at the time of placement of order through Trading System in a special Short Sale Order Window designated in the Trading System for the purpose.

Provided that company will not enter a Short Sale order in the Trading System if the client has not indicated whether the sale order is a Short Sale or a Sale. For this purpose, the company will ensure that the necessary procedures and systems are implemented to facilitate compliance with this requirement.

- vi. Short Seller will have to make delivery of the net shares involved in the Short Sale on the day of settlement.
- vii. Short Sale will only be allowed in Category A of SLB Eligible Securities, as prescribed by the NCCPL from time to time, based on the criteria prescribed under the NCCPL Regulations.
- viii. Company while engaging in short selling transaction on account of a customer will ensure that such customer is aware of the risks involved and has the financial capacity to assume such risks.
- ix. There are documented policy & procedures for ensuring implementation of trade review procedure, reasonably designed to identify trades that may violate the provisions of the Act and any rules and regulations made thereunder.

- x. There are established procedures to prevent execution of blank sales. These are implemented through a system and include production of evidence of holding of securities by the customer if the securities are not held under custody with company (e.g. securities held in the Investor's Account).

16 Controls over completeness, accuracy and authenticity of Back Office Record and Data

Company implements effective internal controls which are approved by the Board including the following.

➤ Procedures & Mechanism

- i. Proper log and sequencing of all input data and transaction documents.
- ii. Proper indexing and arranging of all deals and transactions so as to permit prompt access to any particular record.
- iii. IT controls are efficiently managed and implemented.
- iv. For processing and recording of transactions, an approved structure of authority matrix by the company is there in place.
- v. The recording of telephone orders placed by the customers is kept by the I.T Department.
- vi. Brokerage amount is calculated by the system automatically on the basis of brokerage rate entered in the system at the time of account opening.
- vii. Adjustment (If any) to the amount of brokerage will be made only after approval mail from traders.
- viii. All the equity brokerage transactions entered into by the company is settled through NCCPL.
- ix. The company compares the Trade Summary (System Generated Report of Trades) with NCCPL clearing report by comparing net amount receivable / payable as per NCCPL report extracted from NCCPL terminal, in order to ensure that there are no unrecorded transactions.
- x. In case a difference is identified between the Trade Summary and NCCPL report, reconciliation is prepared.
- xi. The reconciliation is reviewed by Head of Operations or other designated person.
- xii. Physical access to back office data is restricted to authorized persons only. Adequate controls are developed in this respect and are communicated to employees.
- xiii. Company has also established and implements a contingency plan to ensure continuity of its operations in the event of disaster or crisis as detailed in the regulations.

B Finance

17 Financial Statement Closing Process

- i. Company submits;
 - a) Hardcopies of its Annual Audited Financial statements along with audit report to the Exchange, CDC, NCCPL and PSX within four months after the end of each financial year.
 - b) Hardcopies of its Half-Yearly Financial statements to the Exchange and PSX within 60 days after the end of half year.
 - c) Quarterly financial information to the Commission through online Financial Reporting System (FRS) within 30 days from the close of each quarter.
- ii. The company prepares its periodic financial statements as per the Companies Act, 2017 and gets the same audited as per the Companies Act, 2017.
- iii. The company places its periodic financial statements on its website.
- iv. The company places its half yearly progress report on its website.
- v. The company has its financial statements audited by a QCR rated Chartered Accountant Firm.

➤ **Procedures & Mechanism**

➤ **Preparation of Financial Statements**

- i. Finance department have disclosure checklist for analyzing the completeness of disclosures in the financial statements.
- ii. The personnel in finance department prepares draft financial statement and its disclosures based on the system generated trial balance and information received from various departments.
- iii. As the draft financial statements are prepared, it is reviewed by the relevant personnel in the finance department against the disclosures checklist to ensure that they are in compliance with applicable laws and regulations relating to presentation and disclosure of financial statements.

➤ **Reconciliation of House Securities with CDC/NCCPL**

- i. Reconciliations are prepared by relevant officer and reviewed by Head of Operations and Risk management department.
- ii. Appropriate adjustments are recommended by relevant officer to back-office personnel and are approved by the Head of Operations.
- iii. These reconciliations are performed on periodic basis.

➤ **Recording of Tax expense, Withholdings and Payments**

- i. Taxation workings (Current and Deferred Taxation) are prepared and reviewed by relevant personnel.
- ii. System contains list of customers/ vendors along with their applicable rates. Once the payment is made to those customers, system automatically compute the amount of withholding which is show on the payment voucher.
- iii. Relevant officer in the finance department ensures that the amount has been actually withheld and this is reviewed by the competent authority in the finance department.

C Fixed Assets/Intangible Assets

Fixed assets also known as tangible assets or property, plant and equipment (PP&E), is a term used in accounting for assets and property that cannot easily be converted in to cash. An intangible asset is an asset that lacks physical substance in contrast to physical assets such as machinery and buildings and financial assets such as government securities.

➤ **Procedures & Mechanism**

18 Additions, Deletions, Adjustment, Write-off

- i. Requisition request is raised by concerned department containing the reason, description and amount. Such requisition is approved by departmental head and then forwarded to procurement department.
- ii. Requisition once approved by the CEO/ COO/ relevant authority, at least three quotations are obtained.
- iii. Award of quotation is based on the selection criteria as defined in the SOPs. Purchase order is generated as approved by relevant authority which is then forwarded to relevant departments.
- iv. Assets are received by user department/ relevant department which intimates to finance department after verifying and tagging it for entry in Fixed Asset Register.
- v. Finance department personnel checks all the source documents supporting the acquisition and then entry is made in system after obtaining the approval of relevant authority. The invoice is sent to finance department by user department for payment processing.

- vi. Payment vouchers are prepared and approved by the relevant personnel.
- vii. Disposals are approved by relevant authorities of user department and administrative department. The approved forms are sent to the finance department for recording.
- viii. Each year, internal audit department/ relevant department performs the physical count of assets and reconcile it to fixed asset register in order to determine whether any adjustments/write-offs are required which is then communicated to finance department.
- ix. User departments annually review the valuations and realizability of assets to identify permanent impairment and then communicate adjustments to personnel in finance department which is recorded in the system after obtaining the approval from CFO.
- x. Approved gate pass is prepared by user department/ relevant department which is then forwarded to the administrative department for assets received or leaving the premises.

19 Maintenance of Fixed Asset Register

- i. Fixed asset register is maintained by the relevant personnel in finance department who updates the register as per the intimation of user department after additions/ disposal/ adjustments/ write offs. The recording of impact in books is subjected to the approval of CFO.
- ii. Fixed asset register contains the following minimum particulars as per the requirements of TR-6 issued by ICAP:
 - a) Detailed description of each item.
 - b) Original cost of the item.
 - c) Date of its acquisition.
 - d) Classification of the item.
 - e) The location and/or the custodian of the item.
 - f) The rate of depreciation.
 - g) Accumulated depreciation.
 - h) Depreciation charge for the period.
 - i) The department/ cost center/ product to which the depreciation is charged date of revaluation (if any).
 - j) Revalued amount (if any) of the items.
 - k) Depreciation on revalued amount.
 - l) Accumulated depreciation on the revalued amount.

D Trade Debts

A trade debt or bad debt in the business world is an account payable. It is the money one company owes another for a good or service received but not yet paid for.

➤ **Procedures & Mechanism**

20 Exposure Limits

- i. There is a criteria/policy of the company to provide exposure limits to customers.
- ii. Exposure limits are assigned to customer after proper review and approval.
- iii. The policy relating to exposure limits is not in contravention to respective rules and regulations.
- iv. The compliance officer monitors the trade debts on regular basis and any contravention or violations are brought to the knowledge of the management to take necessary action.

21 IT Controls

- i. IT team ensures that:
 - a) Any unauthorized change in exposure limit in the system is restricted.
 - b) System generates a pop-up when the exposure limit is fulfilled/ breached.
 - c) Ageing is accurate based on (FIFO method).
 - d) User wise complete audit logs for access and updates are available in the system

22 Ageing & Provisioning

There is a detailed policy for aging and provisioning and its accuracy/calculations are checked on a regular basis.

23 Recoveries /Write offs

- i. There is a policy for recoveries / write offs. Policy covers the person who is authorized to write off /collect recoveries, approval by the BOD, working after consideration of the tax laws / IFRS.
- ii. Disclosure of provision is made for the balances due for more than 5 days after taking into consideration of value of custody after applying haircut (Regulations).

E Cash And Bank

➤ Procedures & Mechanism

24 Account Opening/Closing

- i. Approval for opening of accounts along with name of signatories authorized to operate is obtained from the Board.
- ii. Compliance department fulfills necessary requirements which are reviewed and approved by CEO and then account is opened.
- iii. Compliance officer authorizes finance department personnel for the opening of new GL code for new account opened.
- iv. The bank accounts are not closed without obtaining the prior approval from the Board along with the reasons for closing the account.

25 Bank Reconciliations

- i. Finance department personnel, on fortnightly basis prepares bank reconciliation of all bank accounts which is reviewed and approved by the compliance officer.
- ii. All unusual items in bank reconciliation are investigated by the compliance officer.

26 Payment/Receipts of Funds

- i. Authorized signatories are defined for the issuance of cheques/ pay orders/instruments.
- ii. Once funds are received, finance department personnel verifies relevant supporting documents and entry is then made in the system after the authorization from the relevant authority.
- iii. Payment voucher is prepared by finance department personnel once the invoices or bills are received from user department. Payment is only processed after payment voucher is approved by the relevant authority.
- iv. There is a clear policy of receipts and payments from clients through cross cheques. Any exception of cash receipt is reported to the stock exchange.

27 Petty Cash

- i. A Personnel in finance department is authorized along with the limits of cash maintained with him.
- ii. Physical Count is performed periodically by relevant personnel in the presence of head of user department.
- iii. Payments from petty cash is made after taking the approval of user department head and then supporting documentation is forwarded to the finance department relevant personnel who reviews and posts the entry after the approval of the relevant authority.

28 Profit computation on savings/PLS accounts

- i. At the end of each month, Finance department personnel computes the profit on different accounts using applicable rates which is approved by the compliance officer for the recording in the system.
- ii. Profit accrual is computed by the relevant personnel in finance department which is then approved by the compliance officer and entry is then recorded in the system.
- iii. Once profit is credited in the bank account by the respective bank, receipt voucher prepared by the finance department personnel, is approved by the relevant authority/compliance officer.
- iv. Entry for the receipt will then be recorded in the system.
- v. Finance department personnel will compare the amount received from the bank with the accrual amount recorded already in system.
- vi. Any difference between such amounts will be recorded in the system after the approval of compliance officer.
- vii. Distribution of profit on client related bank account to each client; in case client is not ready to receive the profit amount than proper approval is obtained from respective clients in accordance with the applicable regulations.

F Expenses

➤ Procedures & Mechanism

- i. Purchase order is prepared / controlled for all the expenditure incurred by the company above the threshold specified by the board or senior management. Before issuing the purchase order, it is signed by the relevant authorized person.
- ii. Invoices are verified and compared with the purchase order.
- iii. Disbursement vouchers are prepared and authorized by the relevant authority.
- iv. Authorization limits are set for all the expenditure incurred by the company.
- v. Capitalization policy has been designed to properly classify the expense into revenue / capital expenditure.
- vi. All expense transactions and other cash disbursement are recorded in a journal called cash disbursements and accounts payable by check numbers (including void checks).

G Information Technology General Controls (ITGCS)

➤ Procedures & Mechanism

29 Access Security

- i. The company had approved the nature and extent of user-access privileges for new and modified user access, including standard application profiles/roles and critical financial reporting transactions.
- ii. Only authorized software is allowed to be installed on systems.
- iii. Access for terminated and/or transferred users is removed or modified in a timely manner in accordance with the documented company policy.
- iv. Privileged-level access is authorized and appropriately restricted.

- v. User access is periodically reviewed in accordance with the established requirements in the documented company's policy.
- vi. Logging is enabled within the system.
- vii. Logs are monitored or audited on timely basis to detect unauthorized or inappropriate activity.
- viii. Access is authenticated through unique user IDs and passwords as a mechanism for validating that users are authorized to gain access to the system. Password parameters meet company's or professional policies and standards (e.g., password minimum length and complexity, expiration, account lockout).
- ix. Changes are appropriately approved and tested before being moved into the production environment.
- x. Any change is communicated on a timely basis.

30 Program Change

- i. End-users performs acceptance testing of programs and systems in a protected environment separate from production before the developed, or modified programs or systems are implemented into the production environment.
- ii. Access to implement changes into the application production environment is appropriately restricted and segregated from the development environment.

31 Data Center and Network Operations

- i. Physical security mechanisms and environmental controls are in place to protect company's IT assets in computer rooms from intentional or unintentional damage.
- ii. Financial data is backed up on a regular basis according to an established schedule and frequency. Backup media is stored in an appropriately secure location. Further, backup processes are monitored for successful execution, and failures are escalated and corrected to ensure data is usable and available for retrieval and restoration if needed.
- iii. Restoration testing of backups is performed on frequent basis to determine the usability and integrity of the files.

- iv. The company has obtained formal agreement for technical or application support from software vendor to ensure availability of such support. Management of the company monitors compliance with these agreements.

32 Application Acquisition, Development & Maintenance

- i. An established methodology or process, approved by the company, is used to guide the acquisition, development, modification, and maintenance of application systems, databases, Network/Domain Controller and communication software, systems software, and hardware to establish consistency of development and maintenance activities within the entity.
- ii. Management of the company approves all decisions related to aforementioned acquisitions.

33 IT Governance

- i. IT risk management framework has been established that is aligned to the organization's risk management framework.
- ii. A formal disaster recovery plan / business continuity plan has been developed, approved and tested on periodic basis.
- iii. IT/ IS policies and procedures are formally documented, approved and updated on periodic basis.
- iv. Security Awareness trainings/programs are conducted on periodic basis in order to enable the users of information systems to understand applicable security policies and the measures that should be taken to safeguard organizational assets.
- v. A formally documented and approved Matrix exists to address SOD related issues.
- vi. Internal Audit function also reviews IT related matters.
- vii. Compliance to the minimum computing, connectivity, security and other requirements as identified by the Exchange, Depository and Clearing Company from time-to-time is ensured.

34 Operating System/Database

- i. Management of the company approves the nature and extent of user-access privileges for new and modified user access, including standard application profiles/roles and critical financial reporting transactions.
- ii. Access for terminated or transferred users is removed or modified in a timely manner in accordance with the documented company's policy.
- iii. Privileged-level access is authorized and appropriately restricted.
- iv. User access is periodically reviewed in accordance with the established requirements in the documented company's policy.
- v. Logging is enabled within the system.
- vi. Logs are monitored or audited on a regular basis to detect unauthorized or inappropriate activity.
- vii. Access is authenticated through unique user IDs and passwords or other methods as a mechanism for validating that users are authorized to gain access to the system. Password parameters meet company's or professional policies and standards (e.g., password minimum length and complexity, expiration, account lockout).
- viii. Changes are appropriately approved and tested before being moved into the Production Environment.
- ix. Any change is communicated on a timely basis.
- x. Log of generated and deleted voucher is also maintained.
- xi. Systems is safeguarded from malicious programs (e.g. viruses, worms, trojans etc.) through updated anti-virus and other related software.

35 Network

- i. Access is authenticated through unique user IDs and passwords or other methods as a mechanism for validating that users are authorized to gain access to the system. Password parameters meet company or industry standards (e.g., password minimum length and complexity expiration, account lockout).

- ii. Network is architected to segment web-facing applications from the internal network, where ICFR relevant applications are accessed.
- iii. On a periodic basis, vulnerability scans of the network perimeter are performed by the Network management team who also investigate potential vulnerabilities.
- iv. On a periodic basis, alerts are generated to provide notification of threats identified by the intrusion detection systems. These threats are investigated by the Network management team.
- v. Encryption and two factor authentication protocols are implemented to restrict Virtual Private Network (VPN) access to authorized and appropriate users.
- vi. Network / firewall changes are appropriately reviewed and approved before being implemented into the production environment.

36 Disaster Recovery Planning / Business Continuity Plan

- i. Business Continuity and Disaster recovery plan is in place duly approved by the Board of Directors, having capability of restoring both the IT operations and business processes.
- ii. Coordinated strategy has been developed that involves plan, procedures and technical measures to enable the recovery of systems, operations and data after a disruption.
- iii. Disaster recovery plan is tested on periodic basis and proper documentation of the same is in place.
- iv. Contingency plan covers the minimum following requirements/principles to ensure continuity of company's operations in the event of disaster or crisis;
 - a) Offsite backup of key records, systems and information and mechanism for recovery.
 - b) Alternate ways of communications with customers, employees and any regulatory body.
 - c) Details of alternate service providers in case of disaster.
 - d) Details of availability of necessary redundancies including infrastructural redundancies as well as operational and human capital.
 - e) Adequate infrastructure including system capability to ensure connectivity with primary and DR site of the Exchange for carrying out seamless transactions.

H Compliance Department

37 Structure

- i. Company has appointed a whole-time compliance officer, fulfilling the fit and proper criteria as specified in the Regulations.
- ii. Appointment of compliance officer is done by CEO subject to the approval of Audit Committee/ BOD.
- iii. Compliance officer meets minimum criteria as specified in the Regulations.
- iv. Compliance officer is responsible for monitoring compliance of the company with the applicable regulatory regime.
- v. Compliance Officer reports findings directly to the Audit Committee/ BOD for the actions.

38 Qualification of Staff

- i. The Board has formulated policy containing the following minimum criteria for appointment of staff in the compliance department:
 - a) Education.
 - b) Experience.
 - c) Professional qualification.
- ii. Regular trainings are organized by the compliance department officer.

39 Compliance plan/ Scope and Monitoring mechanism

- i. There is a compliance department scope/policy/plan/manual, approved by the Board of Directors which contains the following particulars at a minimum:
 - a) Frequency of monitoring
 - b) Scope of work including compliance with all applicable regulatory requirements.
 - c) Areas for monitoring.
 - d) Thresholds for monitoring.
 - e) Risk assessments.
 - f) Reporting of exceptions to Audit Committee/ BOD.
 - g) Laws and regulations checklists covering all regulatory requirements.
 - h) Roles and responsibilities of the compliance department.

- i) Basic process flow for conducting periodic reviews.
- ii. Each year, compliance department officer reviews the scope in the light of new/amended laws and regulations and then make recommendations to the Audit Committee/ BOD for the final approval.
- iii. At regular intervals, Compliance department personnel observes/checks the compliances as per the approved scope and then report is prepared which is reviewed and approved by compliance officer who presents the same in the Audit Committee/ BOD. The Audit Committee/ BOD then decide the course of actions.

40 Follow-up Mechanism on pending Compliances

- i. Compliance department obtains the status from relevant departments on regular basis for any pending non-compliances identified. The same is reported to the Audit Committee/ BOD for the further actions.
- ii. Compliance department personnel communicates to the relevant departments for the changes/amendments in the laws and regulations along with the deadlines for the compliance.

41 Internal Code of Practice

Internal code of practice has been developed and reviewed on a regular basis for ensuring that company's board, directors, employees and agents are acting in interest of the customer, the integrity of the market and are in compliance of the Securities Act, 2015, Securities Brokers (Licensing and Operations) Regulations, 2016 updated as of April 27, 2020 and any other applicable laws, guidelines, directives, circulars etc.

I Entity Level Controls

42 Risk Assessment Process

A process for identifying business risk relevant to financial reporting, estimating the significance of the risks, assessing the likelihood of their occurrence, and determining actions to address those risks is in place. The accounting department has processes to identify significant changes in the financial reporting framework.

43 Development and Implementation of Policies and Procedures

- i. A comprehensive policies and procedures are developed by the Compliance & Internal Audit Department for all key areas of operations. These policies and procedures are periodically updated.
- ii. Once the policy is developed by the Compliance & Internal Audit Department, it is visible to and clearly understood by the entire organization.
- iii. There is a review mechanism for reporting compliance with established policies and procedures.
- iv. Internal audit department covers the area of implementation of policies and procedures.
- v. Process is there for assessment of the effectiveness of established policies, and procedures on regular basis. The evaluation considers the results of established policies, changes in market.

44 Internal Audit Department

- i. Internal audit department has been established to provide the Board and the management of the company with the evaluation of system of internal controls, assessment of risks, test operations of systems, and communication / recommendation for improvement.
- ii. The department is competent by employing the sufficient appropriately qualified staff having Internal Audit background and relevant experience.
- iii. All significant business processes and IT operations will be covered in the Internal Audit's plan for each year.
- iv. Internal audit should be independent of the management and reporting to the audit committee.
- v. Periodic annual review of the internal control system and assessment of overall level of compliance of the company is carried out and reported directly to the board of directors or its audit committee.
- vi. Audit committee/ Board reviews the activities of internal audit department and ensures that the internal audit department is adequately resourced.
- vii. The Board and Audit Committee reviews significant reporting issues and accounting policies, company's financial statements, formal announcements, net capital balance and other regulatory reporting, going concern assumption, transactions with related parties etc.

45 Compliance with the Corporate Governance Code for Company

- i. Company ensures compliance with the Corporate Governance Code requirements given in the the Annexure D of the Securities Brokers Licensing and Operations Regulations updated on September 08, 2020.
- ii. The company ensures compliance with the securities brokers Code in addition to the Code of Corporate Governance (CCG) applicable on listed companies. In case, there is any inconsistency with the CCG, the provisions of the CCG should prevail.

46 Anti-Money Laundering, Countering Financing of Terrorism & Proliferation Financing

46 Compliance with Securities and Exchange Commission of Pakistan Anti Money Laundering and Countering Financing of Terrorism Regulations, 2020:

The Company complies with the requirements as specified and stated in the Securities and Exchange Commission of Pakistan Anti Money Laundering and Countering Financing of Terrorism Regulations, 2020 and the Guidelines on Anti-Money Laundering, Countering Financing of Terrorism and Proliferation Financing, 2020 issued by the Commission and as may be amended from time to time.

An updated AML Policy with respect to AML/CFT Guidelines, 2020 issued by SECP and AML/CFT Regulations, 2020 issued by SECP has been made and is implemented in the company in order to comply with the regulatory framework and fulfill regulatory requirements.

47 All Staff Members

- i. Will be familiarizing themselves with Laws, Guidelines, Regulations, Policies and Best practices relating to their respective areas of work and responsibility.
- ii. Will implement the measures and approaches diligently and to the best of their ability.
- iii. Will report any legal violations or other forms of misconduct in accordance with company policies and procedures.

48 References

This policy is in line with accordance to the provisions of Guidelines for Internal Control System and Compliance Function for Securities Brokers Updated on August 31, 2017 issued by SECP and PSX Rulebook Updated on September 08, 2020.