GALLARDO
SECURITIES

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Gallardo Securities Anti Money laundering Policy Feb 2019

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13.1 Overview
Money laundering is the process by which criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activity. If undertaken successfully, it also allows them to maintain control over the proceeds and ultimately provide cover for their source of income.
The Firm takes its anti-money laundering obligations very seriously and requires its entire Staff to know and be familiar with the relevant anti-money laundering provisions.
The anti-money laundering measures that the Firm has implemented are derived from the requirements imposed upon it under UK legislation and regulations, the relevant parts of the FCA Handbook and the Joint Money Laundering Steering Group Guidance (the "**JMLSG Guidance**").

13.2 Statutory and Regulatory Provisions
13.2.1 The Proceeds of Crime Act 2002
The Proceeds of Crime Act 2002 ("**POCA**") and the Money Laundering Regulations ("**MLR**") form the principal statute of UK anti-money laundering legislation. POCA imposes a range of criminal penalties for institutions and individuals that fail to comply with its provisions.

13.2.2 Assistance
It is an offence under POCA to help another person launder the proceeds of criminal conduct. Specifically, it is an offence when a person, knows or suspects that property is criminal property, and:
A) Conceals transfers or converts that property;
b) Is concerned in an arrangement which facilitates the acquisition, retention or use of that property for or on behalf of another;
c) Acquires uses or possesses criminal property.

The maximum penalty for these offences is 14 years' imprisonment, or an unlimited fine or both.
Property is criminal property if it constitutes a person's benefit from ANY criminal conduct or it represents such benefit (in whole or part and whether directly or indirectly), no matter how small. This could include tax evasion.
Suspicion is assessed subjectively. Therefore, if a person did not know or suspect that the property was criminal property, they should not be convicted. It is a defence to report your suspicions to the nominated officer, which is the Firm's Money Laundering Reporting Officer (the "**MLRO**").

13.2.3 Failing to report
Where an employee has suspicion that money laundering is occurring or there were reasonable grounds for being suspicious, it is an offence to fail to inform the police or the nominated officer (the MLRO). If you have a suspicion of money laundering, please contact the MLRO in the first instance.
The maximum penalty for failing to report is five years' imprisonment and/or an unlimited fine.

13.2.4 Tipping Off
Within a regulated firm, even after making a disclosure of suspicion to the nominated officer (the MLRO), it is an offence where a person discloses information to another which will likely prejudice any investigation.
This would include disclosing to another:
a) That information has been passed to the police, a nominated officer (generally the MLRO), the National Crime Agency (the "NCA"), etc.

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b) Or that an investigation into money laundering allegations is being contemplated or carried out.

The maximum sentence for 'tipping off' is two years' imprisonment and/or an unlimited fine.

13.3 The Money Laundering Regulations (the "MLR") and Directives

The current Money Laundering Regulations implement the most recent EU Directive on money laundering. The MLR, together with POCA, spell out a maximum penalty for all offences under POCA of 14 years imprisonment and/or a fine which is unlimited by statute.

The Fourth Money Laundering Directive will apply in the UK and across the EU from 26 June 2017 and this Chapter as well as the Firm's AML Risk-Based Policy will require review to ensure the relevant changes are incorporated into this Chapter and Policy and that they are enforced operationally.

The MLR prescribe certain administrative procedures that are designed to prevent money laundering for all activities that are classified as "relevant financial business". For the avoidance of doubt, all of the Firm's business is to be treated as relevant financial business within the meaning of the MLR.

The MLR impose obligations upon the Firm to maintain the following arrangements to combat money laundering, this would include:

- Client identification procedures;
- Client identification records;
- Procedures for referring suspicions of money laundering, fraud or other financial crime;
- Such other systems, procedures and controls as may be appropriate to prevent money laundering;
- Training for employees who handle relevant financial business on the internal procedures and the laws, regulations, and guidance relating to anti-money laundering; and
- Training for employees on the recognition, handling, and reporting of transactions which appear to relate to money laundering or criminal activity.

A failure to comply with any of these requirements is an offence punishable by up to two years imprisonment or a fine. Both the FCA and Crown Prosecution Service have the powers to prosecute for a breach of the MLR.

13.4 The JMLSG Guidance

POCA and the MLR are supplemented by rules issued by the FCA and by guidance issued by the JMLSG Guidance.

JMLSG Guidance seeks to provide practical advice for financial institutions as to how to ensure they are compliant with POCA, the MLR, and the FCA Rules. Generally, adherence to the JMLSG Guidance should protect the Firm and its employees from both disciplinary action and criminal prosecution.

13.5 The FCA Rules

The FCA's SYSC (Senior Management Arrangements, Systems and Controls) rules require the Firm to have effective anti-money laundering systems and controls in order to reduce the opportunities for money laundering and to regularly assess the adequacy of these controls. It also requires the Firm to ensure that Approved Persons exercise appropriate responsibilities in relation to anti-money laundering systems and controls.

13.6 Financial Sanctions

Economic, trade or financial sanctions are political trade tools mainly imposed by governments, the United Nations and the EU to exert pressure on individuals or political regimes and for the advancement of foreign policy objectives.

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In 2016, the UK Government issued an Action plan for anti-money laundering and counter-terrorist finance[1]. The UK financial sanctions regime lists individuals and entities that are subject to financial sanctions. These can be in the UK, EU or the rest of the world.

The UK Government oversees the UK financial sanctions regime. Specifically, the Office of Financial Sanctions Implementation ("**OFSI**"), which is a part of Her Majesty's Treasury (the HMT"), is responsible for implementing, administering and enforcing compliance with UK financial sanctions. It maintains a list of sanctioned parties that includes UK, EU and UN sanctioned parties and is referred to as the HMT list.
The HMT list stems from international financial sanctions orders. Each financial sanction order comes from a statutory instrument and/or EU Regulation. The relevant legislation will specify the services we may, or may not provide to the named individual and/or entity.

In general terms, without a licence from HMT, firms may not provide funds or services to those on the HMT list. A firm must advise HMT as soon as possible where it has identified an actual match with a person or entity on the HMT list, or where it knows or suspects that a client or a person with whom the firm has had business dealings.

A failure to comply with these obligations can carry serious consequences. Penalties for non-compliance with economic sanctions include regulatory action, monetary fines and/or custodial sentences. The maximum term of imprisonment is currently 7 years in relation to the UK sanctions regime, and 2 years for EU regimes.
One of the FCA's statutory objectives is reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime. Providing funds or financial services to those on the HMT list comes within the financial crime objective.

The FCA may take enforcement action if it considers that a firm's systems and controls are inadequate irrespective of whether there has been a breach of the sanctions regime. The FCA Handbook (especially, the FCA Financial Crime guide for firms) makes it clear that regulated firms are expected to have appropriate systems and controls in place.

The FCA Rules require the Firm to take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that the Firm might be used to further financial crime. It is noted that checking clients and relevant personnel connected to that client is mandatory.

13.7 Risk Based Approach
It is highly unlikely that any sanctions will be in place against any UK regulated firm. The Firm will therefore, not usually check UK regulated entities, or the directors/shareholders.
All other accounts will be screened at the time of client take on, and before providing any services or undertaking any transactions.
It is unlikely that the Firm will identify any sanctions matches from our suppliers of goods and services, the majority of which are established entities also based in the UK.
13.8 Sanctions Lists
[1]https://www.gov.uk/government/publications/action-plan-for-anti-money-laundering-and-counter-terrorist-finance

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The Firm recognises that although the majority of clients are EEA and US based, we do have relationships with clients from the rest of the world. The Firm will therefore utilise the following latest consolidated sanctions lists in relation to checking client:
HMT
http://www.hm-treasury.gov.uk/fin_sanctions_index.htm
Europe
http://eeas.europa.eu/cfsp/sanctions/consol-list_en.htm
OFAC
https://www.treasury.gov/press-center/press-releases/Pages/default.aspx
We will monitor regulatory changes and maintain an internal framework to ensure that customers, third parties and transactions do not breach these sanction regimes.
We will conduct regular re-screening of our existing clients (and where appropriate, associated persons, e.g. directors). This will take place, wherever possible, after receiving Treasury **or OFAC notification.**

The Firm may also make use of third party sanction screening service to screen and monitor any and all sanction developments and the status of its clients.

In the event a possible match is identified, this must immediately be reported to the Compliance Officer/MLRO who will initiate an investigation. A clear and detailed audit trail will be retained on file. This will include the reason for deciding that a potential match is deemed to be false.
The Compliance Officer/MLRO will confirm any matches and inform the OFSI, either by using the asset freeze licence application[2] form or the suspected breach form[3] and e-mail to ofsi@hmtreasury.gsi.gov.uk.
The target match account will be frozen pending further instruction from the HMT. A clear and detailed audit trail will be maintained and retained on file.
The Compliance Officer/MLRO will include information in relation to sanctions to the Board, as necessary. It will also be included in the MLRO Annual Report.

13.9 Training
Relevant employees will be provided with the necessary training to ensure they understand the sanctions regime, the required escalation procedures, and are aware of which sites to monitor so to keep themselves up-to-date.

13.10 Politically Exposed Persons ("PEPs")
"PEP" is defined as follows:
An individual who is or has, at any time in the preceding year, been entrusted with a prominent public function by a non-UK country, the European Union or an international body. Please note that the 4th EU Money Laundering Directive which will apply to Member States from 26 June 2017 will extend this definition to include an individual holding a public function in the UK (the so-called domestic PEP). The definition extends to such individuals as immediate family members and close associates.
PEP status itself does not incriminate individuals or entities. However, it does place the client, or the beneficial owner, into a higher risk category. The MLR require **enhanced due diligence** to be undertaken prior to and when conducting business with PEPs.
[2]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512770/ofsi_generic_licence_application_form_march_2016.docx
[3]https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/512772/ofsi_breach_form_template_march_2016.docx52

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PEPs can pose unique reputational and other risks to the Firm. In particular:
• A number of corrupt public figures around the globe have used financial products and services as safe havens for the misuse of funds, and to conduct illegal activities and associated practices, including money laundering4;
• Public figures enjoy prominence and are therefore under continuous public spotlight. Their financial affairs are highly magnified and could easily trigger adverse publicity for the Firm; and
• There is growing attention worldwide to the misuse of public funds and increased reaction against corruption at high government levels.

The Firm is therefore required to have appropriate measures in place to identify PEPs and to formulate policies and procedures to manage them. It is noted that PEP checks are now mandatory and all clients are to be checked against a suitable database.

13.10.1 Prominent Public Functions
Prominent public functions include, but are not limited to senior positions such as:
• Heads of state, government ministers and deputy or assistant ministers;
• Members of Parliament;
• Members of supreme courts, or constitutional courts or other high-level judicial bodies whose decisions are not generally subject to further appeal, except in exceptional circumstances;
• Members of courts of auditors or of the boards of central banks;
• Ambassadors, Charges d'affairs and high ranking officers in the armed forces; and
• Members of the administrative, management or supervisory bodies of state-owned enterprises.

The definition does not include middle-ranking or more junior officials. However, each match will be examined on a case-by-case basis, investigated and reported accordingly to the MLRO/Compliance Officer (together with the senior manager from which we require the final written approval) for final decision.

13.10.2 Family Members and Close Associates
The definition of PEPs also extends to members of the immediate family and known close associates of PEPs. Immediate family members include:
• Spouse;
• Partner (including a person who is considered by his/her national law as equivalent to a spouse);
• Siblings;
• Children and their spouse; and
• Parents.

Close associates include:
• Any individual who is known to have joint beneficial ownership of a legal entity or legal arrangement, or any other close business relations, with a person who is a PEP; and

4 The most recent examples of corruption scandals involving PEPs are: https://blog.transparency.org/2014/07/28/libyas-top-5-corruption-scandals-2/ (involving Muammar Gaddafi) and http://www.theguardian.com/world/2015/mar/18/switzerland-to-return-sani-abacha-loot-money-to-nigeria (involving Sani Abacha).

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• Any individual who has sole beneficial ownership of a legal entity or legal arrangement which is known to have been set up for the benefit of a person who is PEP.

For the purpose of deciding whether a person is a known close associate of PEP, the Firm need only have regard to any information which is in its possession, or which is publicly known.
Although under the definition of PEP, an individual ceases to be regarded as such after he/she has left office for one (1) year, enhanced monitoring will continue to be undertaken. Each account will be reviewed annually and a decision made on a case-by-case basis, with regard to removing PEP status. The MLRO/Compliance Officer will document the rationale in relation to each decision and discuss it with the Senior Management for final written approval.
Whilst at the moment, UK public figures do not **need** to be included in the definition of PEP. We will however record UK public figures as PEPs, especially given that the 4th Money Laundering Directive will impose this requirement in 2017.

13.11 Risk Based Approach/Enhanced Due Diligence
Whilst recognising the risk posed by PEPs, our policy is that being PEP does not disqualify an individual as our potential client. Similarly, where a corporate entity has PEP as a director, officer, or beneficial owner. The Firm will not turn away any business solely because of these exposures alone.
However, the risk must be identified and a number of controls put in place to manage that exposure.
The MLR 2017 require firms to take adequate measures in relation to identified PEPs and to establish the source of wealth, source of funds and conduct enhanced ongoing monitoring of the relationship. The following are the measures the Firm will take:
• No business will be undertaken for any account until full open source internet checking has been undertaken of the entity, directors and shareholders/beneficial owners (as applicable);
• Any identified PEP will be immediately reported to the MLRO/Compliance Officer for full review. The review will include, but not be limited to the following:

o Nature and intended purpose of the business;
o Expected activity (volumes and values);
o Source of wealth check (how the client became wealthy);
o Source of funds check (where specifically, the funds for the business relationship originated);
o Documenting and understanding ownership structures, complex or opaque corporate structures and the reason for them (if applicable);
o Research to identify family members, known associates and known directorships of other entities;
o Retaining all the information on file;
o Obtaining Income & Asset Declaration from the client where appropriate.
o MLRO/Compliance agreeing activation and implementing ongoing monitoring or declining account; or
o including exposure to PEPs in the MLRO report.

• All identified PEPs will be placed on the internal PEPs Register. The Board will have full access to the PEP Register which will be available on the Firm's Intranet and will be constantly updated (as and when a new PEP client is accepted);
• Any identified domestic PEPs will also be placed on the PEP Register and treated in the same manner as foreign PEPs

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If a client is taken on from another FCA-authorised firm, full PEP check of the client/directors/shareholders/beneficial owners will be undertaken before any account activity is undertaken.

13.11.1 Ongoing Monitoring

Monitoring will include transaction monitoring which will compare expected activity against actual activity. Any suspicious activity identified will be reported to the MLRO in the first instance who will then decide whether or not to report it and submit a Suspicious Activity Report ("**SAR**") to the NCA
.

13.11.2 Training

Relevant Staff will be provided with the necessary training to ensure they understand what PEP is, how to identify PEP and the required escalation measures.

13.11.3 Annual Review

All accounts that involve an identified PEP will be fully reviewed on an annual basis, or sooner should additional information become available which could result in a material change to the clients risk profile. This will be undertaken in association with the MLRO/Compliance Team, and will include the following;

- Comparison between expected activities against actual activities;
- Full review of account activity;
- Up to date confirmation of directors, shareholders/beneficial owners;
- Up to date searches on corporate entity, directors, shareholders/beneficial owners;
- Proof of listing, confirmation of authorisation (if applicable) and any changes to legal status; and
- Any money laundering alerts in the preceding year.

13.12 Reporting Suspicious Activities and Identifying Suspicious Activities

For each and every activity, Staff must be satisfied that there is a legitimate commercial rationale for it to take place.

The first indicator giving rise for suspicion might be when a client seeks to do an activity that is inconsistent with known legitimate business activities or with the business normally associated with that type of client or potential client. Therefore, the first key to recognition is sufficient knowledge of that client's business to recognise that an activity or series of activities might be suspicious.

Much of the information which determines whether an activity or series of activities is suspicious will be recorded in the account opening process. For example, it records information as to the jurisdiction of the client as well as the type of products with which it wishes to transact and settlement clearing details. The obligation to undertake KYC is a continuing one.

As the client relationship develops, further information will be obtained relating to the client that will be relevant to assessing whether any particular activity or series of activities is suspicious. For example, information as to the value and frequency of activities will be obtained.

Staff should be aware and keep abreast of any international developments which may give cause for suspicion relating to their clients.

Information about a client, taken as a whole, should enable Staff to identify particular activities/instructions or a series of activities/instructions which may be suspicious and require further examination.

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13.13 Other indicators

The types of activities and methods used by money launderers are unlimited. Often the money launderer's intention will be simply to carry out activities for their own sake in order to complicate the audit trail. Always think carefully about clients who:

• wish to deal on a large scale, are unknown to you and verification of their identity proves difficult;
• engage in a lot of activity with little or no profit, possibly across a number of jurisdictions;
• Willingly accept uneconomic terms;
• Deal for no obvious explicable purpose;
• Suddenly vary their pattern of investment;
• change the settlement details at the last moment;
• require settlement to be made by bearer securities outside a recognised clearing system;
• ask to transfer investments to apparently unrelated third parties;
• are introduced by an overseas agent who is based in a country noted for drug production or exchange; and
• want to transfer funds overseas, or to make payment with foreign currency, which appear to have no commercial objective.

Special attention should be paid to complex, unusual or large activities and all unusual patterns of activities which have no apparent economic or lawful purpose. The background and purpose of such activity should, as far as possible, be examined and the findings established in writing.

This applies particularly when dealing with clients in less regulated jurisdictions (i.e. countries which are not members of or have been identified to have strategic deficiencies by the Financial Action Task Force ("**FATF**"). If the client or transaction originates from a country where money laundering activities are perceived to be prevalent, it will be necessary to take additional steps in order to be satisfied that the transaction is not suspicious.

13.13.1 Advance Fee Frauds

Where the suspicion is an advanced Fee Fraud, which frequently involves making advance or upfront payments for goods, services and/ or financial gains that do not materialise, the NCA has confirmed that it is not appropriate for matters to be reported to it.

All suspicions relating to Advance Fee Frauds should be referred to the MLRO, who will decide if it is appropriate to refer it to Action Fraud.

13.14 Making a Report to the MLRO

Before making a report to the MLRO in the prescribed form, Staff should complete a SAR form The SAR is the only method by which the suspicious activity should be reported to the MLRO.

The SAR should be completed carefully and must contain all relevant information that may be of assistance to the MLRO in determining whether or not a report should be made to the NCA.

The MLRO will decide the next course of action to take. No one other than the MLRO should report suspicions of money laundering to the NCA or the authorities.

Failure to make a report to the MLRO where reasonable grounds for suspicion exist may be the subject of disciplinary action and may be a criminal offence as stated above.

13.15 Staff Action on Submission of a SAR

Whenever a SAR is made, Staff will receive written notification confirming:

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- Their legal obligations not to 'tip-off' a suspect or do acts which may prejudice an investigation;
- Their obligation not to discuss their suspicions with colleagues unless there is a business need to do so; and
- The desirability of ceasing contact with the person attempting the fraud or money laundering.

Any further contact should only be upon the advice of the MLRO.
Once a report has been made the transaction must not proceed without the written approval of the MLRO. The fact that a report has been made to the MLRO is confidential and should be confined to those individuals within the Firm who need to know about it.
Should it be necessary to explain the reasons to the client for the delay in the transaction proceeding, care should be taken not to alert the client that suspicions exist. You should promptly seek advice from the MLRO before doing so.

On no account should the fact of the report to the MLRO or the NCA be made to the client or any other person whom it is suspected may be engaged in criminal conduct.
The more people who are aware of a report, the greater the risk of allegations being made that a person has been "tipped off" or that an investigation has been prejudiced. As mentioned above, 'tipping off' is an offence which is punishable by up to 5 years in prison and/or an unlimited fine.

13.16 The Firm's Anti-Money Laundering Measures

The Firm has implemented an anti-money laundering policy which stipulates the systems and procedures in place to tackle money laundering and provides guidance to Staff to ensure that the Firm's systems and procedures are in accordance with the relevant money laundering rules and requirements. Due to its changing nature as new issues arise, this Policy is maintained outside the Compliance Manual. The Compliance Officer/MLRO will notify you where the Anti-Money Laundering Policy can be found.
The Anti-Money Laundering Risk-Based Policy contains the Firm's measures regarding account opening process; Customer Due Diligence requirements implemented; and the Firm's risk-based approach.

13.16.1 Reliance on Third Parties

Based on the Firm's Anti-Money Laundering Risk-Based Policy, the MLR and the JMLSG Guidance, the Firm may rely on another FCA authorised firm, professional service firms subject to the MLR or equivalent to apply any or all of the Customer Due Diligence ("**CDD**") measures, provided the Firm has obtained written acknowledgement from the other firm consenting to being relied upon. In the event the firm that is being relied upon has not given written evidence, but have implied by conduct or otherwise, please contact the MLRO for a notification letter to be sent to the firm being relied upon. That is
All Staff are required to familiarise themselves with the Firm's Anti-Money Laundering Risk-Based Policy and the CDD requirements imposed. If there are any areas about which you are unclear or you wish to discuss further, you should contact the Compliance Officer/MLRO
The nature and extent of systems and controls will depend on a variety of factors including:
- The nature, scale and complexity of the firm's business;
- The diversity of its operations, including geographical diversity;
- Its customer, product and activity profile;
- Its distribution channels;
- The volume and size of its transactions; and
- The degree of risk associated with each area of its operation