

Indicators Related to Securities Sector

Preface

There are different types of securities providers and brokers who may be involved in conducting transactions related to securities, impacting the management of investment funds' risks and investment in securities. This may create opportunities for criminals to commit money laundering and financing of terrorism crimes, which makes it necessary to monitor the indicators that may indicate suspicious transactions, as follows:

Indicators Related to Customers:

1. Customer's reluctance to meet the commercial entity's employees, his evasiveness and secrecy when asked to provide further information.
2. Customer frequently or unexpectedly changes his contact details.
3. Customer's refusal or evasion from the commercial entity's communications.
4. Customer's refusal to send any documents from the commercial entity to his home address.
5. When conducting personal discussions, the customer is always accompanied by parties whose nature of work or the purpose of their influential participation in the formulation of commercial transactions is not clear.
6. Customer is tension when conducting routine or regular transactions.
7. Customer attempts to build a close relationship with the employees.
8. Customer offers, money, rewards or unusual services in order to secure services that may appear unusual or suspicious.
9. Customer who does not have a source of income conducts transactions of large amounts or often maintains high account movement.
10. Customer's financial situation is known to have severe financial difficulties.
11. Customer shows an unusual curiosity about internal systems, policies and control and monitoring mechanisms.
12. Customer justifies the purpose of the transaction and exaggerates in providing documents proving its validity.
13. Customer deliberately provides wrong, incomplete or unclear information or refuses to provide the commercial entity with the necessary information and documents that reflect his commercial activity, the source of funds, the actual

beneficiary and the nature and purpose of the relationship between the parties to the transaction.

14. Customer's non-cooperation in identifying and specifying the actual beneficiary.
15. Customer's refusal and hesitation to provide the commercial entity with his personal documents.
16. Customer has been rejected or the business relationship therewith has been terminated by other commercial entities.
17. Customer's reluctance to provide the commercial entity with full information about the nature and purpose of his work, his previous financial relationships, his expected account activity, the officials and managers of the commercial entity and his work address.
18. Customer refuses to provide information about the beneficial owners of an account he opened for a certain entity or provides false or misleading information in this regard.
19. Customer is interested in paying higher fees to the commercial entity to keep the confidentiality of some information related thereto.
20. Customer attempts to convince an employee of the commercial entity not to keep the necessary records about him.
21. Reluctance of the customer authorized by another party to provide additional information about the party he works for.
22. Mismatch of contact data (address and phone number) with the customer's permanent residence address.
23. Customer's address or e-mail corresponds to the accounts of other customers with whom he has no clear relationship.
24. It is widespread in open sources (news or internet searches and social media) that criminal, civil or organizational lawsuits have been filed against the customer related to corruption crimes or misuse of public funds, or that he is associated with parties with similar lawsuits.
25. Customer shows unusual interest in the commercial entity's compliance with government-issued reporting requirements or in the commercial entity's AML/CFT policy.
26. Law enforcement agencies have issued subpoenas regarding the customer's account with commercial entities working in the field of securities.
27. Missing important details in the customer's personal documents, such as phone number.

28. Customer is significantly late in submitting the documents of the commercial entity owned thereby.
29. All documents provided by the customer are in a foreign language or cannot be verified for some reason.
30. Unexpected or repeated change of beneficial owner.
31. Customer does not show any interest in the amount of the transaction and the currency in which it is conducted.
32. Customer's history reflects the absence of a clear economic purpose for receiving deposits from a third party, which may indicate fraud in offering securities for subscription.
33. Customer deposits a large number of securities assets of various types in his account with the commercial entity, which may indicate fraud in offering securities for subscription.
34. The name on the securities asset document is different from the name on the account, which may indicate fraud in offering securities for subscription.
35. Customer's statement in terms of obtaining securities' assets alters, or his explanation thereof is illogical, which may indicate fraud in offering securities for subscription.
36. Customer enters into a financial commitment that appears to be beyond his financial capabilities.
37. Officials or persons who have a history of regulatory violations and have access to low-priced assets or ***illiquid securities** of the commercial entity, which may indicate market manipulation.
38. Customer is known to have friends or family members who work for the securities issuer, which may indicate ***insider trading**.

*** Ill-liquid Securities:** Securities that are difficult to sell and liquidate, such as long-term investment funds.

***Insider (Trading):** Data or information that is not disclosed to the public, which would impact securities' price or trading if announced.

Indicators Related to Transaction:

1. No evident purpose is indicated for the transaction.
2. Customer conducts transactions that appear outside the normal framework of commercial practices in Securities Sector or transactions that may not bring economic benefits to the customer.
3. Transactions appear organized and sequential to avoid control and monitoring.
4. Emergence of a sudden activity in the volume of transactions that is not commensurate with the volume of transactions in the past.
5. Sudden change in the pattern of the customer's transactions that is not commensurate with the customer's financial situation or the pattern of his usual activities.
6. Customer with a long history with the commercial entity suddenly liquidates all his assets with the aim of removing his wealth from the state.
7. Customer refuses to invest in the most appropriate securities due to the strict due diligence procedures (Know Your Customer) when investing in these securities.
8. Customer is reluctant to provide the commercial entity with the necessary information or refuses to conduct the transaction when he is asked to provide the necessary documents or data for record keeping.
9. Withdrawal of funds shortly after they have been deposited into the account.
10. Transactions that show that the customer is acting on behalf of other parties without clarifying the nature of the economic relationship between them.
11. Transactions involve unknown third parties.
12. Recurring transactions with valid amounts without bankruptcy.
13. Carrying out very complex transactions other than the customer's financial status.
14. Transactions' pattern in amounts below the minimum set for the disclosure of the source of funds.
15. Purchasing long-term investments, followed shortly by liquidating those investments and transferring the sale proceeds outside the account.
16. Purchasing long-term investments followed shortly by liquidation of accounts after a short period of time, regardless of the fees or penalties to be paid as a result.

17. Conducting transfer transactions and sending/receiving funds to/from parties with criminal or suspicious activities.
18. Customer's activities violate Kuwaiti laws.
19. Customer purchases a product without considering any loss, commission or other product-related costs.
20. Controlling or responsible owner of a public joint stock company transfers funds to his personal account or to the account of a private commercial entity owned thereby, where he is an authorized signatory.
21. Purchasing and selling unlisted securities with a large difference in price within a short period of time, which may constitute evidence of a transfer of value from one party to another, which may denote market manipulation.
22. Carrying out a transaction in which one party purchases securities at a high price and then sells them at a great loss to another party. This may constitute evidence of a transfer of value from one party to another, which may denote market manipulation.
23. Customer's transactions include a pattern of continuous losses, which may be evidence of a transfer of value from one party to another, which may denote market manipulation.
24. Customer's transactions include transferring ownership of securities thereto, before selling them, in addition to transferring sale proceeds outside the account, which may denote market manipulation.
25. It is suddenly apparent to officials or persons with the right of access in the concerned company that there is a link in the trading movement of illiquid or low-priced securities through two or more accounts in the company, which may denote market manipulation.
26. Conducting transactions between related parties, in which one party incurs a loss while the other party gains, which may denote market manipulation.
27. Customer, upon depositing assets of securities, requests the shares to be listed in multiple accounts that do not appear to be linked, or requests to sell them or transfer their ownership, which may denote market manipulation.
28. Customer requests to carry out a sale or purchase transaction for the same share or related shares in his own favor or for the benefit of the actual beneficiary, with a time sequence, which may denote market manipulation.
29. Purchasing shares in small amounts during the day to raise share price, which may denote market manipulation.

30. Entering a trading process with prior knowledge of pending customer orders that may affect share price, which may denote market manipulation.
31. Absence of an adequate explanation to the customer about securities' origin, even though the history or volume of traded shares indicates the need for such an explanation, which may indicate fraud in offering securities for subscription.
32. Transfer of funds or shares from several persons to a single person, or from one person to several persons, without having a clear economic purpose for that.
33. Carrying out huge transactions to purchase or sell securities or ***option contracts** on securities shortly before announcing information affecting their price, which may denote a case of insider trading.
34. Customer sells his shares during the period in which news regarding those shares is announced, which may denote a case of insider trading.
35. Carrying out a purchase transaction that does not match the customer's investment history, which may denote a case of insider trading.
36. Customer has opened an account or deposited sums of money into the account shortly before the purchase process, which may denote case of insider trading.

Indicators Related to Products, Services and Channels Used:

1. Customer uses intermediaries, such as money managers or advisors, to secure anonymity.
2. Opening accounts in names that are very close to the names of other existing commercial entities.
3. Attempting to open accounts under a fake name.
4. Upon opening the account, it is found that the customer has economic relations with high-risk natural or legal parties.
5. Actual activity significantly exceeds the expected activity when opening the account.
6. Customer's account is not used for the purpose for which it was opened (e.g., using it as a deposit account or using customer's personal account for economic purposes).

***Option Contracts:** A contract or agreement that gives a person the right, without obligation, to purchase or sell a security or a group of securities, where that right does not include the right to own those securities.

7. Customer refuses to give information when opening the account as necessary to complete the due diligence procedures in the Know Your Customer form (e.g., job, previous financial relationships, etc.).
8. After opening the account, the customer presents unusual or suspicious personal documents that cannot be easily verified or that do not correspond to data or other documents previously submitted.
9. Customer's financial history is questionable or does not correspond to the nature of business practiced thereby.
10. Account movement is not commensurate with the sources of income disclosed in the Know Your Customer form.
11. Customer owns or maintains several accounts in the names of family members or has several companies without an obvious economic purpose.
12. Customer participates in pre-arranged securities trading or other types of non-competitive trading, including sham deals or exchange of illiquid, low-priced or difficult-to-price securities, which may denote market manipulation.
13. Trading on the same share(s) among a number of accounts managed by the same persons, which may denote market manipulation.
14. Shares' issuer does not have any clear commercial activity, revenues or products, which may indicate that it is a front company or denote a case of market manipulation.
15. Frequent and continuous change of the issuer's business structure or continuous material changes in the business strategy or the type of its activity, which may denote market manipulation.
16. Customer opens and manages multiple accounts for different commercial entities, which may indicate fraud in offering securities for subscription.
17. Customer received several checks and money transfers from parties not related thereto, which may indicate fraud in offering securities for subscription.
18. Customer distributes deposits made by a third party to several accounts, which may indicate fraud in offering securities for subscription.
19. Customer makes financial payments to a third party at short intervals and receives checks or money transfers from another party, which may denote fraud in offering securities for subscription.
20. The company issuing the shares has already been subjected to trading-related penalties, which may indicate fraud in offering securities for subscription.
21. Company pays investors' dividends in cash.

22. Using front companies to purchase shares of a public company, especially if the latter is involved in projects that generate large amounts of cash.
23. Transfer of assets without proper transfer of funds, e.g., by writing down actual ownership or making a change therein.
24. Sudden return of activity to the account without any logical explanation.
25. Investing in a product without reviewing its financial performance or its specifications.
26. Frequent transfer of shares' ownership.
27. Current transactions' volume for intermediary companies is not commensurate with it in the past.
28. Customer exploits investment portfolios in conducting his transactions to conceal the identity of the actual beneficiary.
29. Structuring the customer's commercial relationship with the company lacks economic logic.
30. Transferring funds to financial or banking institutions other than those for which the funds were originally sent.
31. Customer requests to transfer some payments through the accounts of the trading company or correspondent accounts belonging to the financial broker, or from other accounts instead of his own account.
32. Customer's trading patterns indicate that he may have inside information that has been leaked, which may denote insider trading.

Indicators Related to Geographical Location:

1. Customer is a natural person or a commercial entity registered in an area known for its banking secrecy and of being a safe tax haven or a high-risk geographical area (such as drug-producing areas).
2. Transactions related to a state known to have a high crime rate (e.g., high rates of corruption, terrorism and massive drug production) or a high-risk state in terms of ML/FT.
3. There are no clear links between the customer and the other transaction parties in the other state in which the commercial entity is located.
4. Providing guarantees for loans against commitments from external banks, which validity is difficult to verify.
5. Carrying out transactions for the sale and purchase of dual-listed shares in the financial markets of more than one state.