NEW

Policy framed based on Prevention of Money Laundering Act, 2002, the Rules framed there under and Circulars issued by Regulatory Authorities.

BACKGROUND:

As per the provisions of the PMLA, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under Section 12 of the SEBI Act, shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA. Such transactions include:

1) All cash transactions of the value of more than Rs 10 lakh or its equivalent in foreign currency.
2) All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakh or its equivalent in foreign currency where such series of transactions take place within one calendar month.
3) All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non monetary account such as demat account, security account maintained by the registered intermediary.

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

OBLIGATION TO ESTABLISH POLICIES AND PROCEDURES:

Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all

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intermediaries ensure the fulfillment of the aforementioned obligations.

To be in compliance with these obligations, the senior management of a registered intermediary shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Registered Intermediaries shall:

(a) Issue a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
(b) Ensure that the content of these Directives are understood by all staff members;
(c) Regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures;
(d) Adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;
(e) Undertake client due diligence **("CDD")** measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;
(f) Have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and
(g) Develop staff member's awareness and vigilance to guard against ML and TF

A. PRINCIPAL OFFICER

As per the requirement of Prevention of Money Laundering Act, 2002, a Principal Officer has been appointed and informed to FIU-IND. **MR. KAPLESH PAREKH** appointed as Principal Officer and will be responsible for reporting any transactions covered under Prevention of Money Laundering Act, 2002.

B. CLIENT DUE DILIGENCE

Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures.

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The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

Each registered intermediary shall adopt written procedures to implement the anti money laundering provisions as envisaged under the PMLA. Such procedures shall include interalia, the following three specific parameters which are related to the overall **'Client Due Diligence**

PROCESS :

a. Policy for acceptance of clients
b. Procedure for identifying the clients
c. Transaction monitoring and reporting especially Suspicious

Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds; and Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

1. NEW CUSTOMER ACCEPTANCE PROCEDURES ADOPTED INCLUDE FOLLOWING PROCESSES:

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) Can be accessed in the United Nations website at http://www.un.org/sc/committees/1267/consolist.shtml. Before opening any new account, it will be ensured that the name/s of the proposed customer does not appear in the list. Further, continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to SEBI and FIU-IND.

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a) Customer identification and verification depending on nature /status of the customer and kind of transactions that are expected by the customer. Also at the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship.
b) One certified copy of an 'officially valid document' containing details of his identity and address, one recent photograph and such other documents including in respect of the nature of business and financial status of the client.
c) Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and
d) Circulars issued by SEBI from time to time.
e) False / incorrect identification of documents
f) Client should remain present for registration personally
g) Compliance with guidelines issued by various regulators such as SEBI, FIU, RBI etc.
h) Establishing identity of the client, verification of addresses, phone numbers and other details.
i) Obtaining sufficient information in order to identify persons who beneficially own or control the trading account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by entity other than the client
j) Verification of the genuineness of the PAN provided by the client such as comparing with original
k) Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c);
l) The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

PAN, CHECKING DETAILS ON THE INCOME TAX WEBSITE ETC.

a) Checking original documents before accepting a copy.

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b) Asking for any additional information as deemed fit on case to case basis to satisfy about the Genuineness and financial standing of the client.

c) Whether the client has any criminal background, whether he has been at any point of time been associated in any civil or criminal proceedings anywhere.

d) Checking whether at any point of time he has been banned from trading in the stock market. And

e) In all other cases, verify identity while carrying out:

(i) Transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or

(ii) Any international money transfer operations.

(1 A) Identify the beneficial owner and take all reasonable steps to verify his identity.

(1 B) Ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that the same is consistent with knowledge of the customer, his business and risk profile.

(1 C) Member shall keep any anonymous account or account in fictitious names.

2. FOR EXISTING CLIENTS PROCESSES INCLUDE:

a) Review of KYC details periodically of all the existing active clients in context to the PMLA 2002 requirements.

b) Classification of clients into high, medium or low risk categories based on KYC details, trading activity etc for closer monitoring of high risk categories.

c) Obtaining of annual financial statements from all clients, particularly those in high risk categories.

d) In case of non individuals client additional information about the directors, partners, dominant promoters, and major shareholders is obtained.

e) Periodically review and obtain relevant documents from clients depending on risk categorization i.e. once in a year for high risk clients, once in two years for medium risk clients and once in three years for low risk clients.

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WRITTEN ANTI MONEY LAUNDERING PROCEDURES:

Each registered intermediary shall adopt written procedures to implement the anti money laundering provisions as envisaged under the PMLA. Such procedures shall include inter alia, the following three specific parameters which are related to the overall **'Client Due Diligence**

Process':

a. Policy for acceptance of clients

b. Procedure for identifying the clients

c. Transaction monitoring and reporting especially Suspicious Transactions Reporting **(STR).**

C. Risk based approach:

It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the to adopt an enhanced client due diligence process for higher risk categories of clients. Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that registered intermediaries shall obtain necessarily depend on the risk category of a particular client.

Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk

Following Risk based KYC procedures are adopted for all clients:

1. Large number of accounts having a common account holder
2. Unexplained transfers between multiple accounts with no rationale
3. Unusual activity compared to past transactions
4. Doubt over the real beneficiary of the account

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5. Payout/pay-in of funds and securities transferred to /from a third party
6. Off market transactions especially in illiquid stock and in F & O, at unrealistic prices
7. Large sums being transferred from overseas for making payments
8. Inconsistent with the clients' financial background

D. Clients of special category (CSC)

i. Non resident clients,
ii. High net-worth clients,
iii. Trust, Charities, NGOs and organizations receiving donations,
iv. Companies having close family shareholdings or beneficial ownership,
v. Politically exposed persons (PEP). Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent clause 5.5 (Page 19 of the Master Circular) shall also be applied to the accounts of the family members or close relatives of PEPs,
vi. Companies offering foreign exchange offerings.
vii. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent,
viii. Non face to face clients,
ix. Clients with dubious reputation as per public information available etc.
X. Where the client is a juridical person, verify that any person purporting to act on behalf of such client is so authorised and verify the identity of that person.

CLIENT IDENTIFICATION PROCEDURE:

The KYC policy shall clearly spell out the client identification procedure to be carried out At different stages i.e. while establishing the intermediary – client relationship, while

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carrying out transactions for the client or when the intermediary has doubts regarding the veracity or the adequacy of previously obtained client identification data.

Following requirements while putting in place a Client Identification Procedure **(CIP)**:

a) Appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures shall include seeking relevant informationfrom the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures as outlined shall also be applicable where the beneficial owner of a client is a PEP.

b) Required to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediary shall obtain senior management approval to continue the business relationship.

c) Also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP".

d) The client shall be identified by u sing reliable sources includingdocuments/ information. The intermediary shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

e) The information must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the directives. Each original document shall be seen prior to acceptance of a copy.

f) Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority within the intermediary

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<u>Record Keeping:</u>

1. Ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.
2. Maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.
3. All client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

Retention of Records:

1. Proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records have to be maintained and preserved for a period of ten years from the date of transactions between the client and intermediary.
2. The records of the identity of clients have to be maintained and preserved for a period of ten years from the date of cessation of transactions between the client and intermediary, i.e. the date of termination of an account or business relationship between the client and intermediary

E. MONITORING & REPORTING OF SUSPICIOUS TRANSACTIONS:

"Suspicious transaction" means a transaction whether or not made in cash, which to a person acting in good faith -
(a) gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
(b) appears to be made in circumstances of unusual or unjustified complexity; or
(c) appears to have no economic rationale or bonafide purpose; or
(d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;".

Ongoing monitoring of accounts which includes

1. Identification and detection of apparently abnormal transactions.

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Member : BSE, NSE, Currency & Depository Services
Arham Comserv Pvt. Ltd.
Member : MCX, NCDEX

2. Generation of necessary reports/alerts based on clients' profile, nature of business, trading pattern of clients for identifying and detecting such transactions. These reports/alerts are analyzed to establish suspicion or otherwise for the purpose of reporting such transactions. Following parameters are used:

i) Clients whose identity verification seems difficult or clients appear not to cooperate

ii) Substantial increase in activity without any apparent cause

iii) Large number of accounts having common parameters such as common partners / directors / promoters / address / email address / telephone numbers / introducers or authorized signatories;

iv) Transactions with no apparent economic or business rationale

v) Sudden activity in dormant accounts;

vi) Source of funds are doubtful or inconsistency in payment pattern;

vii) Unusual and large cash deposits made by an individual or business;

viii) Transfer of investment proceeds to apparently unrelated third parties;

ix) Multiple transactions of value just below the threshold limit of Rs 10 Lacs specified in PMLA so as to avoid possible reporting;

x) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;

xi) Purchases made on own account transferred to a third party through off market transactions through DP Accounts;

xii) Suspicious off market transactions;

xiii) Large deals at prices away from the market.

xiv) Accounts used as 'pass through'. Where no transfer of ownership of securities or trading is occurring in the account and the account is being used only for funds transfers/layering purposes.

xv) All transactions involving receipts by non-profit organisations of value more than rupees ten lakh, or its equivalent in foreign currency;

xvi) clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'Clients of Special Category'. Such clients should also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

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xvii) Irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, file STR if we have reasonable grounds to believe that the transactions involve proceeds of crime."

F. Reporting of Suspicious Transactions:

1. All suspicious transactions will be reported to FIU. Member and its employees shall keep the fact of furnishing information in respect of transactions referred to in clause (D) of sub-rule (1) of rule 3 strictly confidential.

2. The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and related documents should be made available to auditors and also to SEBI /Stock Exchanges/FIU-IND/Other relevant Authorities, during audit, inspection or as and when required. These records are required to be preserved for ten years as is required under PMLA 2002.

3. The Principal Officer and related staff members shall have timely access to customer identification data and other CDD information, transaction records and other relevant information. The Principal Officer shall have access to and be able to report to senior management above his/her next reporting level or the Board of Directors.

G. Risk Assessment:

i) Registered intermediaries shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions (these can be accessed at http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml and http://www.un.org/sc/committees/1988/list.shtml).

ii) The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self regulating bodies, as and when required.

H. Procedure for freezing of funds, financial assets or economic resources or related services:

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated August 27, 2009 detailing the procedure for the implementation of Section 51A of the UAPA. Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and

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other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. The obligations to be followed by intermediaries to ensure the effective and expeditious implementation of said Order has been issued vide SEBI Circular ref. no: ISD/AML/CIR-2/2009 dated October 23, 2009, which needs to be complied with scrupulously.

I. On going training to Employees:

1) Importance of PMLA Act & its requirement to employees through training.
2) Ensuring that all the operating and management staff fully understands their responsibilities under PMLA for strict adherence to customer due diligence requirements from establishment of new accounts to transaction monitoring and reporting suspicious transactions to the FIU.
3) Organising suitable training programmes wherever required for new staff, front-line staff, supervisory staff, etc.

Employees' Hiring/Employee's Training/ Investor Education:

To ensure that the adequate screening procedures in place to high standards when hiring employees. To identify the key positions within own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

Investors Education:

Certain information from investors which may be of personal nature or has hither to never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need to sensitize clients about these requirements as the ones emanating from AML and CFT framework. Preparation of specific literature/ pamphlets etc. to educate the client of the objectives of the AML/CFT programme.

H. Audit and Testing of Anti Money Laundering Program.

The Anti Money Laundering program is subject to periodic audit, specifically with regard to testing its adequacy to meet the compliance requirements. The audit/testing is conducted by Trading Member's own personnel not involved in framing or implementing the AML program. The report of such an audit/testing is placed for making suitable modifications/improvements in the AML program.

I. Review of PMLA Policy.

The policy is subject to periodic review by the top level officials of the Company and thereby upgrading and strengthening the rules and regulations followed as per the policy. The periodicity of the review is every three months or else.

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