

POLICY ON PREVENTION OF MONEY LAUNDERING

According to the Prevention of Money Laundering Act, 2002 which came into force on 1st July 2005, every registered member governed by SEBI and as well as FMC shall have to maintain a record of all transactions, the nature and value of which has been prescribed in the Rules under the PMLA. Such transactions include:

- i) All cash transaction of the value of more than 10 lakhs or its equivalent in foreign currency,*
- ii) All series of cash transactions integrally connected to each other which have been valued below Rs.10 lakhs or its equivalent in foreign currency where such series of transactions takes place within one calendar month,*
- iii) All suspicious transactions whether or not made in cash.*

In line with the said Regulations, the following Policy has been adopted.

The word and expressions used in the Policy convey the same meaning as have been assigned to it under the Act and/or Regulation.

The following point have been covered to adhere to the Prevention of Money Laundering Act,2002

DRAFTING OF POLICIES

The Company has drafted and issued a statement of policies/procedure for dealing with Prevention of Money Laundering Act,2002

REVIEWING OF POLICIES

The Company regularly reviews the policies and procedures in the light of the latest circulars issued by the concerned Government Bodies. The Company make aware of the SEBI/FMC/Exchange/DP circular/notification to the concerned department to give effect of the said rules and consequently review the policy based on the circular/notification.

COMMUNICATION OF DRAFT POLICIES

The policies of the Company are effectively communicated at all level of management and to all relevant staffs that handle account information, securities transactions, money and customer records etc in all the branches /subsidiaries of the Company.

INCREASING AWARENESS AND VIGILANCE IN EMPLOYEES

The Company periodically sends its employees/officers to attend the training programmes conducted by the various exchanges like NSE, BSE, CDSL,MCX etc. other associations and statutory bodies, to increase vigilance and awareness among them.

We also take necessary steps for Investors'/ clients Education by organizing seminars, distributing literature and various other information as per available means.

PROPER IDENTIFICATION OF CLIENTS

To identify clients , each client has been allotted a “UCC” in all applicable segment of exchange.

NOTE : The word “UCC” stands for Unique Client Code

TIMELY DISCLOSURE OF INFORMATION

All the communications as well as compliances regarding appointment of Compliance officers or change thereof, submissions of internal audit reports or for sending any other communication are delivered through proper medium as prescribed directly to the concerned authorities.

A) Appointment of Principal Officer

To ensure that the Company properly discharges the responsibility to report suspicious transactions to the authorities Principal Officer has been appointed who would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions.

B) Appointment of Designated Director

Designated Director has been appointed as per provision of the PMLA act /rules who will supervise the work of Principal Officer or other act as specified in the PMLA act/rules.

THE POLICY:

1) Policy for acceptance of clients:

As a measure of customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing following safeguards are to be followed while accepting the clients:

- a. No account is opened in a fictitious / benami name or on an anonymous basis.
- b. Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken.
- c. The parameters should enable classification of clients into low, medium and high risk. Clients of special category like NRIs, foreign nationals, FIIs shall be categorized in higher category requiring higher degree of due diligence and regular update of KYC profile.
But the institutional clients like Life Insurance Corporation of India, General Insurance Corporation, New India Assurance Company Limited, Export Credit & Guarantee Commission, National Insurance Company Limited, LIC Pension Fund Limited relatively fall under low risk category.
Between the high risk and low risk clients , there are also medium turnover clients but they fall under low risk as they are in- house clients and are well known to the Company and to its promoter directors
- d. Documentation requirement and other information to be collected in respect of different classes of clients have been kept depending on perceived risk and having regard to the requirements of the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.
- e. To ensure that an account is not opened where the intermediary is unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the intermediary is suspected to be non-genuine, perceived non-cooperation of the client in providing full and complete information. The Company should not continue to do business with such a person and file a suspicious activity report.
- f. The persons acting for/ on behalf of the clients shall have an authority / consent letter. Adequate verification of a person's authority to act on behalf the client should also be carried out by the Compliance Cell.
- g. Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.
- h. Necessary corresponding are checked by using software based on data provide by the exchanges time to time UN band list .
- i. Effects are given within 24 hours of receiving the circular/notification SEBI/FMC/Exchange/ Government body relating to PMLA.

2) Policy and Procedure for Identifying the Client:

Before registering an entity as client, measures should be taken to identify the client. The identification of the client should be proper. Copy of the identity of the client should be checked and verified with the original. A copy of the identity proof should be kept along with the client registration form. Only self attested copy of PAN Card, Voters identity card, passport, Driving license etc should be accepted as identity proof. Following points should be checked and steps to be taken to ensure in the best possible manner:

- i) The Compliance Cell should take necessary steps to ensure identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.
- ii) There should be proper client introduction.
- iii) New clients shall have to be known to either the directors/employees/ Registered Intermediaries / Authorised Persons of the company.
- iv) Incomplete / suspicious / ambiguous KYC Form received from the clients shall be placed before the Compliance Cell for further processing.
- v) Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to Compliance Cell by the dealer / introducer.
- vi) While carrying out transactions for the client, the dealers / relationship managers shall ensure the identity of the clients by asking them relevant questions like their name and unique client codes.

- vii) The Risk management shall ensure that the exposure given to clients is in conformity with the financial background of the client and in accordance with margin provided by them.
- viii) In cases of doubts regarding the veracity or the adequacy of previously obtained client identification data the principal officer may require the clients to submit additional documents.
- ix) The KYC Form shall be reviewed time to time based on notification /circular etc issued by the SEBI/FMC/Exchange/DP or other authorities and latest documents, if required, shall be obtained from the clients.

3) Customer Due Diligence:

The customer due diligence (CDD) measures will comprise of the following:

- a. To obtain sufficient information in order to identify persons who beneficially own or control 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. 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.
- b. To verify the customer's identity using reliable, independent source documents, data or information;
- c. To 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 customer, its business and risk profile, taking into account, where necessary, the customer's source of funds.
- (d) 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);
- (e) Understand the ownership and control structure of the client;
- (f) 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
- (g) Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.
- (h) Registered intermediaries may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record keeping requirements in line with the obligations under the PML Act.
- (i) Such reliance shall be subject to the conditions that are specified in the PML Rules and shall be in accordance with the regulation and circular/guidelines issued by SEBI from time to time. Further, it is clarified that the registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

4) Transactions monitoring and reporting especially Suspicious Transactions Reporting (STR):

Relevant department of the Company should have a random check a selection of the transaction undertaken by clients and verify the nature if the transactions.

The following shall be reported to the Principal Officer:

- (a) Clients whose identity verification seems difficult or clients appears not to co-operate;
- (b) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing/business activity;
- (c) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high-risk jurisdictions;
- (d) Substantial increases in business without apparent cause;
- (e) Unusually large cash deposits, if any, made by an individual or business;
- (f) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- (g) Transfer of investment proceeds to apparently unrelated third parties;

Further, the trading pattern of the clients shall be closely monitored to identify abnormal/suspicious exposure/position taken by the clients. No cash transactions shall be allowed.

In case, of any doubts about source of funds of the client or is instigated by clients to give abnormally high exposure, the same shall be immediately reported to the Principal Officer to take further action.

The Principal Officer, if thinks fit, shall report any suspicion transaction to the Money Laundering Control Officer.

The Company regularly reviews the policies and procedures in the light of the latest circulars issued by the concerned Government Bodies. In this process company regularly monitors the circulars of SEBI/FMC/DP/Exchanges/RBI and other etc.

and works out the effect and changes required.

5) Risk

5.1 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.

5.2 Risk-based Approach

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

6) Clients of special category (CSC):

Such clients include the following

- a. Non resident clients
- b. High net worth clients
- c. Trust, Charities, NGOs and organizations receiving donations
- d. Companies having close family shareholdings or beneficial Ownership
- e. Politically exposed persons (PEP) of foreign origin. Politically Exposed Persons (PEP) 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 Client identification Procedure para shall also be applied to the accounts of the family members or close relatives of PEPs.
- f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)
- g. Companies offering foreign exchange offerings
- h. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, 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.
- i. Non face to face clients
- j. Clients with dubious reputation as per public information available etc.

The above-mentioned list is only illustrative and the Company and Principle Officer should exercise their own discretion to ascertain whether new clients should be classified as CSC or not.

7) Record Keeping

7.1. The Company should ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PML Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

7.2. The Company should 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.

7.3. Should there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, Company should retain the following information for the accounts of their customers both domestic & international in order to maintain a satisfactory audit trail:

- a. the beneficial owner of the account;
- b. the volume of the funds flowing through the account; and

- c. for selected transactions:
 - the origin of the funds;
 - the form in which the funds were offered or withdrawn
 - the identity of the person undertaking the transaction;
 - the destination of the funds;
 - the form of instruction and authority.

- 7.4.** The Company should ensure that all customer and transaction records and information are available on a timely basis to the competent investigating authorities. Where appropriate, they should consider retaining certain records, e.g. customer identification, account files, and business correspondence, for periods which may exceed that required under the SEBI Act, Rules and Regulations framed there-under PMLA 2002, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.
- More specifically, all the Company shall put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:
- (i) all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
 - (ii) all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh;
 - (iii) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
 - (iv) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

7.5 Information to be maintained

The company maintains and preserves the following information in respect of transactions referred to in Rule 3 of PML Rules:

- I. the nature of the transactions;
- II. the amount of the transaction and the currency in which it is denominated;
- III. the date on which the transaction was conducted; and
- IV. the parties to the transaction.

8) Retention of Records

- 8.1.** The following document retention terms should be observed:
- a. All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period prescribed under the relevant Act (PMLA, 2002 as well SEBI Act, 1992) and other legislations, Regulations or exchange bye-laws or circulars.
 - b. Records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence should also be kept for the same period.
- 8.2.** In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

9) Monitoring of transactions

- 9.1.** Regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money Laundering procedures. To make possible The Company and Employees should have an understanding of the normal activity of the client so that they can identify the deviant transactions / activities.
- 9.2.** The Company should pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. The Company has prescribed internal threshold limits for each class of client accounts and pay special attention to the transaction which exceeds these limits.
- 9.3.** The Company ensured that a record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate law authority. Suspicious transactions should also be regularly reported to the higher authorities / head of the department.
- 9.4.** Further the compliance cell of the Company will randomly examine a selection of transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

10) Suspicious Transaction Monitoring & Reporting

- 10.1.** The Company ensure that it will take appropriate steps to enable suspicious transactions to be recognised and have appropriate procedures for reporting suspicious transactions. A list of circumstances which may be in the nature of suspicious transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not

will depend upon the background, details of the transactions and other facts and circumstances:

- a. Clients whose identity verification seems difficult or clients appears not to cooperate
- b. Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity
- c. Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions
- d. Substantial increases in business without apparent cause
- e. Unusually large cash deposits made by an individual or business
- f. Clients transferring large sums of money to or from overseas locations with instructions for payment in cash .
- g. Transfer of investment proceeds to apparently unrelated third parties
- h. Unusual transactions by CSCs and businesses undertaken by shell corporations, offshore banks /financial services, businesses reported to be in the nature of export-import of small items.

10.2. Any suspicion transaction should be immediately notified to the Money Laundering Control Officer or to the Principle Officer. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it should be ensured that there is continuity in dealing with the client as normal until told otherwise and the client should not be told of the report/suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken.

11) List of Designated Individuals/Entities

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 the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml and <http://www.un.org/sc/committees/1988/list.shtml>

Registered intermediaries are directed to ensure that accounts are not opened in the name of anyone whose name appears in said list. Registered intermediaries shall 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 shall immediately be intimated to SEBI and FIU-IND.(11)

12) 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 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.

13) Reporting to Financial Intelligence Unit-India

In terms of the PML Rules, intermediaries are required to report information relating to cash and suspicious transactions within the stipulated time and with proper form to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi-110021.

Website: <http://fiuindia.gov.in>

14) Designation of an officer for reporting of suspicious transactions

To ensure that the Company properly discharges its legal obligations to report suspicious transactions to the authorities, Principal Officer has been appointed who would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions.

15) High standards in hiring policies and training with respect to anti-money laundering

The Company has established a HR Department, which will be responsible for hiring of employees and specially giving strength and keeping in mind the provisions of the Act. Key positions of the Company have been identified and the Principal Officer has been entrusted with the responsibility of complying with the provisions of the Act and reporting of the suspicious transactions. The employees of the Company have been briefed up and trained with the provisions and intention of the Act putting stress to anti money laundering and anti-terrorist financing.

The Company periodically sends its employees/officers to attend the training programmes conducted by the various authorities/exchanges like SEBI/FMC/NSE/ BSE/MCX/USE/MCX SX/MCX/NCDEX/CDSL etc. other associations and statutory bodies, to increase vigilance and awareness among them.

We also take necessary steps for Investors'/ clients Education by organizing seminars, distributing literature/circulars and through KYC forms etc.

16) MFSS and BSE Star MF

With the introduction of Mutual Fund Service System (MFSS) and BSE Star MF that facilitates the Trading Members to purchase and sell Mutual Fund Units on the BSE/ NSE platform, the company aims at higher levels of vigilance and compliance with standards for Prevention of Money Laundering specified not only by NSE, BSE and SEBI but also by the Association of Mutual Fund of India (AMFI). The company shall also comply with the Code of Conduct for Intermediaries of Mutual Funds prescribed by SEBI and other Circulars / Notifications as may be issued from time to time.