

## **AML Policy**

Prevention of Money Laundering Act and Rules framed thereunder has come into force with effect from July 01, 2005. The Act and Rules cast certain obligations on securities market intermediaries to put in place systems and procedures to combat money laundering and monitor and report certain transactions.

The Policy has been prepared in consideration to the SEBI Circulars dated January 18, 2006 and March 20, 2006 on the subject. The Anti Money Laundering program has been approved in writing by the senior management and is subject to review at frequent intervals.

The thrust for the implementation of Anti Money Laundering Policy is on the following key aspects:

- Designation of a sufficiently senior person as 'Principal Officer' as required under the Prevention of Money Laundering Act.
- Customer Due Diligence/KYC Standards
- Monitoring of transactions for detecting suspicious transactions
- Reporting of suspicious transactions
- Ongoing training of employees
- Audit/Testing of AML Program

### **Customer Due Diligence/KYC Standards**

**New customer acceptance procedures, inter alia, could include processes**

- a) To cover customer identification and verification depending on nature /status of the customer and kind of transactions that are expected by the customer.
- b) To comply with guidelines issued by various regulators such as SEBI, RBI etc.

- c) For clearly establishing identity of the client, verification of addresses, phone numbers and other details.
- d) In-Person Verification of Client by our Staff Members to ensure the identity of proposed Client.
- e) To obtain 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
- f) For verifying the genuineness of the PAN provided by the client such as comparing with original PAN, checking details on the Income tax website etc.
- g) To check original documents before accepting a copy.
- h) Apart from the mandatory information specified by SEBI, we are asking for any additional information as deemed fit on case to case basis to satisfy themselves about the genuineness and financial standing of the client.
- i) Checking whether the client is having any criminal background, whether he has been at any point of time been associated in any civil or criminal proceedings anywhere.
- j) Checking whether at any point of time the proposed Client has been banned from trading in the stock market.
- k) Reluctance on the part of the client to provide necessary information or cooperate in verification process could generate a red flag for the member for additional monitoring.
- l) Clear processes for introduction of clients by members' employees.
- m) Risk based KYC procedures should be adopted for all new clients.
- n) The information obtained through the above mentioned measures should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the Guidelines.

- o) Factors of risk perception (in terms of monitoring suspicious transactions) of the client to be 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. The parameters should enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of KYC profile.

**For existing clients processes could include**

- a) Review of KYC details 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 etc.
- c) Obtaining of annual financial statements from all clients, particularly those in high-risk categories.
- d) In case of non individuals additional information about the directors, partners, dominant promoters, major shareholders to be obtained.

**Risk based approach:**

Classify both the new and existing clients into high, medium or low risk category depending on parameters such as the customer's background, type of business relationship, transactions etc. Members should apply each of the customers due diligence measures on a risk sensitive basis and adopt an enhanced customer due diligence process for high-risk categories of customers and vice-á-versa.

**Clients of special category (CSC)**

- a) Such clients include the following
- b) Non resident clients
- c) High net worth clients,

- d) Trust, Charities, NGOs and organizations receiving donations
- e) Companies having close family shareholdings or beneficial ownership
- f) Politically exposed persons (PEP) of foreign origin
- g) 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)
- h) Companies offering foreign exchange offerings
- i) 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.
- j) Non face to face clients
- k) Clients with dubious reputation as per public information available etc.

The above-mentioned list is only illustrative and the members should exercise independent judgment to ascertain whether new clients should be classified as CSC or not

#### **Monitoring & Reporting of Suspicious Transactions:**

Ongoing monitoring of accounts is an essential element of an effective Anti Money Laundering framework. Such monitoring should result in identification and detection of apparently abnormal transactions, based on laid down parameters. Members should devise and generate necessary reports/alerts based on their clients' profile, nature of business, trading pattern of clients for identifying and detecting such transactions. These reports/alerts should be analyzed to establish suspicion or otherwise for the purpose of reporting such 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:

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

Substantial increase in activity without any apparent cause

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

- I. Transactions with no apparent economic or business rationale
- II. Sudden activity in dormant accounts;
- III. Source of funds are doubtful or inconsistency in payment pattern;
- IV. Unusual and large cash deposits made by an individual or business;
- V. Transfer of investment proceeds to apparently unrelated third parties;
- VI. Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;
- VII. 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.;
- VIII. Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
- IX. Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
- 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. Trading activity in accounts of high-risk clients based on their profile, business pattern and industry segment.

#### **Reporting of Suspicious Transactions:**

Processes for alert generation, examination and reporting could include

- Audit trail for all alerts generated till they are reported to FIU / closed
- Clear enunciation of responsibilities at each stage of process from generation, examination, recording and reporting
- Escalation through the organization to the principal officer designated for PMLA
- Confidentiality of STRs filed
- Retention of records

#### **On going training to Employees:**

Members should sensitize their employees of the requirements under PMLA and the procedures laid down by the member. Members are also required to ensure 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. Members to organise suitable training programmes wherever required for new staff, front-line staff, sub-brokers, supervisory staff, controllers and product planning personnel, etc.

#### **Audit/Testing of Anti Money Laundering Program.**

The Anti Money Laundering program should be subject to periodic audit specifically with regard to testing its adequacy to meet the compliance requirements. Members own personnel not involved in framing or implementing the AML program may conduct the audit/testing or a qualified third party may do it. The report of such an audit/testing should be placed before the senior management for making suitable modifications /improvements in the AML program.

Place : Mumbai  
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