

## **POLICY ON PREVENTION OF MONEY LAUNDERING ACTIVITIES**

### **BACKGROUND**

The Prevention of Money Laundering Act, 2002 (“PMLA”) was brought into force with effect from 1<sup>st</sup> July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 01<sup>st</sup> July, 2005, by the Department of Revenue, Ministry of Finance, Government of India.

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, 1992 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 have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency.
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.

### **OBJECTIVE & PURPOSE OF THE POLICY**

To adopt written procedures to implement the anti- money laundering provisions specifically covering the following three parameters which are related to the overall 'Client Due Diligence Process':

1. Policy for acceptance of clients
2. Procedure for identifying the client
3. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR).

**DEFINITIONS****1. Client / Customer Due Diligence (CDD)**

For the purpose of CDD, Customer includes Company, Partnership Firms, Body of Individual, Trust, Bank, Mutual Funds, financial Institutions, Insurance Companies, Foreign Investor, individual etc.

**2. Beneficial owner**

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.

**3. Suspicious transactions**

Suspicious transactions means a transaction whether or not made in cash which to a person acting in good faith-

- Gives rise to a reasonable ground of suspicion that it may involve the Proceeds of crime;
- Appears to be made in circumstances of unusual or unjustified complexity or
- Appears to have no economic rationale or bonafide purpose.

**4. Clients of Special Category (CSC)**

CSC clients include the following:

1. Non-resident clients (NRI);
2. High Net worth clients (HNI)
3. Trust, Charities, NGOs and organizations receiving donations.

4. Companies having close family shareholdings or beneficial ownership.
5. Politically exposed persons (PEP) of foreign origin. 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);
6. Companies offering foreign exchange offerings;
7. 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;
8. Non-face to face clients;
9. Clients with dubious reputation as per public information available etc.

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

## **POLICIES AND PROCEDURES TO COMBAT MONEY LAUNDERING AND TERRORIST FINANCING**

### **ESSENTIAL PRINCIPLES**

These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. Each intermediary shall consider carefully the specific nature of its business, organizational structure, type of client and transaction, etc. to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit of the suggested measures and the requirements as laid down in the PMLA.

## IMPLEMENTATION OF THIS POLICY

### 1. CLIENT DUE DILIGENCE (CDD)

According to SEBI, following steps to be taken to comply with 'Customer Due Diligence' process before registering as clients:

- Obtain basic details for the purpose of complying with KYC norms prescribed by SEBI.
- List of Directors and authorized person to trade on behalf of client and copy of Board resolution to that effect.
- Obtain SEBI registration number.
- Obtain PAN NO. (Income Tax number).
- Obtain risk Disclosure Document duly executed by prospective client as prescribed by SEBI.
- List of Directors and authorized person to trade on behalf of client and copy of Board resolution to that effect.
- And it shall also periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

### 2. CLIENT ACCEPTANCE POLICY

The Company's client acceptance policies and procedures aims to identify the types of clients that are likely to pose a higher-than-average risk of ML or TF. The following safeguards are to be followed while accepting the clients:

- No account is opened in a fictitious / benami name or on an anonymous basis.

- Factors of risk perception (in terms of monitoring suspicious transactions) nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken.
- 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 Circulars issued by SEBI from time to time.
- Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures/ KYC policies.
- The circumstances under which the client is permitted to act on behalf of another person/ entity shall be clearly laid down.
- The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

### **3. RISK-BASED APPROACH**

The clients 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. The Company should apply each of the client's due diligence measures on a risk sensitive basis. It 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, it should obtain the type and amount of identification information and documents necessarily dependent on the risk category of a particular customer.

### **4. RISK ASSESSMENT**

Risk assessment to be carried out to identify, assess and take effective measures to mitigate money laundering and terrorist financing risk with respect to 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.

The risk assessment carried out shall also 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 by them.

## 5. CLIENT IDENTIFICATION PROCEDURE

Following requirement need to be put in place for client identification procedure:

- The Company shall proactively put in place appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a politically exposed person.
- Approval from senior management of the company needs to be taken for establishing business relationships with politically exposed person.
- The client shall be identified by the company by using reliable sources including documents / 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.
- 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.
- The Company shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder.

## **6. RELIANCE ON THIRD PARTY FOR CARRYING OUT CLIENT DUE DILIGENCE (CDD)**

The Company may rely on a third party for the purpose of:

1. Identification and verification of the identity of a client and
2. 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.
3. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ 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.

## **7. RECORD KEEPING**

For the purpose of the record keeping provision, we should ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PLM Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

Records to be maintained should be sufficient to permit reconstruction of individual transactions (including the amounts and type of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

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 the financial profile of the suspect's account. To enable this reconstruction, organizations should retain the following information for the accounts of their customers in order to maintain a satisfactory audit trail.

1. The beneficial owner of the account;
2. The volume of the funds flowing through the account; and
3. For selected transactions:
  - The origin of the funds;
  - The form in which the funds were offered or withdrawn, e.g. cash, cheques, etc;
  - The identity of the person undertaking the transaction;
  - The destination of the funds;
  - The form of instruction and authority.

System is been maintained to record all such transaction as prescribed under rule 3 of the PML Rules as follows:

- All cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency;
- All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;
- All suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

#### **8. INFORMATION TO BE MAINTAINED**

The Company are required to maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:

1. the nature of the transactions;
2. the amount of the transaction and the currency in which it is denominated;
3. the date on which the transaction was conducted; and



4. the parties to the transaction.

Organization should ensure that all client and transaction records and information are made available on a timely basis to the competent investigating authorities.

## **9. RETENTION OF RECORDS**

The following document retention terms should be observed:

1. All necessary records on transactions, both domestic and international, should be Maintained at least for the minimum period of five years (5 years) from the date of Cessation of the transaction.
2. 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 eight years from the date of cessation of the transaction.
3. Records shall be maintained in hard or soft copies.

In situations where the records relate to on-going investigation 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.

## **10. RECORDS OF INFORMATION REPORTED TO THE DIRECTOR, FINANCIAL INTELLIGENCE UNIT – INDIA (FIU – IND)**

The Company shall maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU – IND, as required under Rules 7 and 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the company.

## 11. MONITORING OF TRANSACTIONS

Regular monitoring of transactions is required for ensuring effectiveness of the Anti-Money laundering procedures.

Special attention required to all complex, unusually large transactions / patterns which appear to have no economic purpose. Internal threshold limits to specify for each class of client's accounts and pay special attention to the transaction, which exceeds these limits.

The Company should ensure that the records of the transaction are preserved and maintained in terms of the PMLA 2002 and that transactions of suspicious nature or any other transaction notified under section 12 of the act are reported to the appropriate authority. Suspicious transactions should also be regularly reported to the higher authorities / head of the department.

## 12. SUSPICIOUS TRANSACTION MONITORING & REPORTING

Whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances. Followings are the circumstances, which may be in the nature of suspicious Transaction:

- Clients whose identity verification seems difficult or clients appear to be not cooperating.
- Asset management services for clients where the source of the funds is not clear or not in keeping with client's apparent standing / business activity;
- Clients in high -risk jurisdictions or clients introduced by banks or affiliates or other Clients based in high risk jurisdictions;
- Substantial increases in business without apparent cause.
- Unusually large cash deposits made by an individual or business;
- Clients transferring large sums of money to or from overseas locations with Instructions for payment in cash;
- Transfer of investment proceeds to apparently unrelated third parties;

Any suspicion transaction needs to be notified immediately to the Money Laundering Control Officer or designated Principal Officer the company. The notification may be done in the form of

a detailed report with Specific reference to the client's 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.

### 13. REPORTING TO FINANCIAL INTELLIGENCE UNIT-INDIA

In the terms of the PML Rules, company is required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at Director, FIU-IND, Financial Intelligence Unit-India, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi-110021, as per the schedule given below.

Report	Description	Due Date
CTR	All cash transactions of the value of more than Rs.10 Lakhs or its equivalent in foreign currency  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 have taken place within a month	15th day of the succeeding Month
STR	All suspicious transactions whether or not being made in cash	Not later than seven days on satisfied that the transaction is suspicious
NTR	Non-Profit Organization Transaction Report	15th day of the succeeding Month



**14. PRINCIPAL OFFICER AND DESIGNATED DIRECTOR**

The Company shall appoint Principal Officer and Designated Director who shall be responsible for implementation and compliance of this policy and reporting any suspicious transaction or activity to the FIU – IND

**15. POLICY REVIEW**

This Policy must be reviewed at such intervals as may be deemed necessary by the Board of Directors.