

FINANCIAL INTELLIGENCE UNIT-INDIA (FIU-IND)

Financial Intelligence Unit- India (FIU-IND) was set by the Government of India vide O.M. dated 18th November 2004 as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transaction. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence, investigation and enforcement agencies in pursuing the global efforts against money laundering and related crimes. FIU-IND is an independent body reporting directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

PREVENTION OF MONEY LAUNDERING ACT, 2002

CLIENT DUE DILIGENCE

Elements of Client Due Diligence

- 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 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.
- To Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted and to verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted
- To understand the ownership and control structure of the client
- 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 client, its business and risk profile, taking into account, where necessary, the client's source of funds
- To update periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.
- Verify the client's identity using reliable, independent source documents, data or information
- To cover customer identification and verification depending on nature / status of the customer and kind of transactions that are expected by the customer
- To comply with guidelines issued by various regulators such as SEBI, RBI etc.

- For clearly establishing identity of the client, verification of addresses, phone numbers and other details.
- 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.
- To check original documents before accepting a copy.
- Apart from the mandatory information specified by SEBI, members should ask for any additional information as deemed fit on case to case basis to satisfy themselves about the genuineness and financial standing of the client.
- To check whether at any point of time he has been banned from trading in the Stock mkt.
- 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.
- Clear processes for introduction of clients by members' employees.
- Risk based KYC procedures should be adopted for all new clients.
- We can rely on the third party for identification and verification of client and determination of the beneficial ownership of the client and verification of the identity of the beneficial owner of the client. Provided such third party should comply with CDD and record keeping requirement in line with the obligation under the PML Act.

POLICY FOR ACCEPTANCE OF CLIENTS

- Before registering client, we should check the name of client from www.world-check.com, www.watchoutinvestors.com, www.cibil.com, [http://www.mca.gov.in / MCA21/deft_list.html](http://www.mca.gov.in/MCA21/deft_list.html) and AL-Qaida Check List we need to identify the following details of the prospective client:
- We should not open an account in a fictitious name or an anonymous basis.
- We verify the 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. The parameters shall 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 Know Your Client (KYC) profile.
- We should collect the documentation requirements and other information 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.

- We should ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures / KYC policies. This shall be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non genuine, or there is perceived non co-operation of the client in providing full and complete information. The market intermediary shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The market intermediary shall be cautious to ensure that it does not return securities of money that may be from suspicious trades. However, the market intermediary shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.
- We should check the circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent- client registered with the intermediary, as well as the person on whose behalf the agent is acting shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.
- We should adopt 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.
- We should do The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism(ML/FT).
- Client with dubious reputation as per public information available etc.
- We should know about customer's background, his business relationship.
- We should apply each of the customer due diligence measures on a risk sensitive basis.
- With the risk based approach the Broker should obtain necessarily depend on the risk category of a particular customer.

RISK-BASED APPROACH

- It is generally recognized that certain clients may be of a higher or lower risk category depending on circumstances such as the client's background, type of business relationship or transaction etc. As such, the registered intermediaries should apply each of the client due diligence
- measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries should 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 should obtain necessarily depend on the risk category of a particular client.

Factors of risk perception of the client:

Particulars	Risk Perception
1. Factors of Risk Perception having regard to :	
Client`s Location (Registered / Correspondence/ other address)	
Face to Face clients within city	Low Risk
Face to Face clients of other than city	Low Risk
Client Introduced by existing Face to Face Clients	Low Risk
Client Introduced by other Existing Clients	Medium Risk
Direct Clients of city	Medium Risk
Direct Clients of other than city	High Risk
Non resident Clients	High Risk
2. Nature of Business Activity, Trading Turnover etc	
Retail clients (average daily turnover < Rs 10 Lakhs or net settlement obligation < Rs 2 Lakhs)	Low Risk
Retail clients (average daily turnover < Rs 25 Lakhs or net settlement obligation < Rs 5 Lakhs)	Medium Risk
HNI Clients (average daily turnover > Rs 25 Lakhs or net settlement obligation > Rs 5 Lakhs)	High Risk
3. Manner of Making Payment	
Regular payment through A/c payee cheque from the Bank A/c already mapped with us	Low Risk
Payment through A/c payee cheque from the Bank A/c other than one already mapped with us	Medium Risk
Payment through Banker`s Cheque / Demand Draft / Cash	High Risk
Client of Special Categories as defined under Para A (a) of these Guidelines	Very High Risk

CLIENTS OF SPECIAL CATEGORY (CSC)

Such clients include the following-

- Non resident clients
- High net-worth clients,
- Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations.
- Companies having close family shareholdings or beneficial

Ownership.

- 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.

- Companies offering foreign exchange offerings
- 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.

- Non face to face clients
- Clients with dubious reputation as per public information available etc.

RECORD KEEPING

The requirements of keeping record of transactions should be maintained as per SEBI, Exchange and PMLA rules. In addition to the normal records of KYC and Client transactions, we should keep records of any inquiry done by us to identify the beneficial ownership or control, any interconnected transactions and any other suspicious transactions.

- Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later
- Records regarding maintenance of records pertaining to transactions of client should be preserved for five years.

RETENTION OF RECORDS

- The records of the identity of clients shall be maintained for a period of 8 years from the date of cessation of the transactions between the client and the Stock broker as the case may be."
- Records on customer identification documents like passport, Identity card Driving Licenses or similar documents should be kept for the same period.
- In situation where the records relate on-going investigation or transactions which have been the subject of a suspicious transaction, it should be retained until it is confirmed that the case has been closed.

PMLA Policy Prepared By: Madhav Prasad Suaro, Compliance Officer

PMLA Policy Reviewed By: Mr. Sumit Gupta, Director

PMLA Policy Last Review Date: 31-Mar-2022

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- The Broker may specify internal threshold limits for each class of client account and pay special attention to the transaction which exceeds these limits.
- We should ensure a record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and suspicious transaction should also be regularly reported to the higher authorities / head of the department /Principal Officer.
- The compliance all of the Stock Brokers should randomly examine a selection of transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transaction or not.

MONITORING OF TRANSACTIONS

Multiple Accounts

- Large number of accounts having a common account holder, introducer or authorized signatory with no rationale.
- Unexplained transfers between multiple accounts with no rationale.

Activity in Accounts

- Unusual activity compared to past transactions
- Use of different accounts by client alternatively.
- Sudden activity in dormant accounts.
- Activity inconsistent with what would be expected from declared business.
- Account used for circular trading.

Nature of Transactions

- Unusual or unjustified complexity.
- NO economic rationale or bonafide purpose.
- Source of funds are doubtful.
- Appears to be case of insider trading.
- Investment proceeds transferred to a third party.
- Transactions reflect likely market manipulations.
- Suspicious off market transactions.

Value of Transactions

- Value just under the reporting threshold amount in apparent attempt to avoid reporting.
- Large sums being transferred from overseas for making payments.
- Inconsistent with the clients' apparent financial standing.
- Inconsistency in the payment pattern by client.
- Block deal which is not at market prices or prices appear to be artificially inflated/ deflated.

All the documents relating to the monitoring of suspicious transactions maintained and preserved for a period of five years from the date of transaction between the client and intermediary

CLIENT IDENTIFICATION PROCEDURE

- The Client should be identified by the Broker by using reliable sources including documents/ information.
- Each original document should be verified.
- We should also maintain continuous familiarity and follow up where it noticed inconsistency in the information provided.
- We should also maintain record of each transaction of Clients as per SEBI ACT 1992 RULES REGULATIONS made there under PMLA 2002.
- Know your Client Procedure should be strictly followed for the identification of the client.
- Verify the documents with original to identify the false identification documents.
- If the client identification documents which could not be verified within reasonable time, the account should not be opened.
- Non –face to face client account should not be opened.
- If there is doubt over the real beneficiary of the account, account should not be opened.
- Accounts opened with names very close to other established business entities, account should not be opened.
- Client banned/debarred by SEBI or other authorities to enter into capital market, account should not be opened.

Suspicious Background

- Suspicious background or links with known criminals.
- Working in Police Deptt., Working in court, Advocate, Working in Media, Working in a Proprietor shop as worker.

SUSPICIOUS TRANSACTION MONITORING & REPORTING

- We should understand the normal activity range of a client to identify unusual transactions.
- Substantial increase in Business without apparent cause.
- Asset management services for Client where the source of the funds is not clear or not in keeping with client apparent standing/ business activity.
- Unusually large transactions made by and individual or Business.
- All the process of Identification of client and Acceptance and identification of client must be done again in case of suspicious transactions.
- The alerts are generated by back office software as per risk perception.

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 should immediately be intimated to SEBI and FIU-IND.

- The Suspicious Transaction Report (STR) should be submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature.
- The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion.
- The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND.
- Utmost confidentiality should be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/ registered post/fax at the notified address.
- No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported.

We should not put any restrictions on operations in the accounts where an STR has been made. Intermediaries and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. Thus, it should be ensured that there is no tipping off to the client at any level. It is clarified that the registered intermediaries, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, should file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

DESIGNATION OF AN OFFICER FOR REPORTING OF SUSPICIOUS TRANSACTIONS

The identification of suspicious transaction requires supreme authority for collection and controlling of all aspect of the intermediary. Thus, we have designated the following persons as Designated Principal Officer for reporting of suspicious transactions to FIU:

Name of Principal Officer	Exchange	Date of Appointment
Madhav Prasad Suaro	NSE	11/05/2009

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Sumit Gupta
Sumit Gupta

BSE
CDSL

09/02/2012
12/11/2010

As per the requirement of FIU, we have appointed a designated director for levying monetary penalty in case of failure to comply with the AML/CFT obligations. We have appointed Mr. Kuldeep Kumar Gupta (Appointment Date:17/06/2014) as our Designated Director for NSE, BSE and CDSL operations.

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.

EMPLOYEE HIRING POLICY & TRAINING WITH RESPECT TO ANTI MONEY LAUNDERING

We should hire competent employees in key positions with regard to the risk of money laundering and terrorist financing. We should provide anti money laundering and anti-terrorist financing training to the employees. We should maintain the id proofs, address proofs, photographs, resumes, education qualifications & references of all the employees.

Investor Education

As the implementation of AML/CFT measures being sensitive subject and requires us to demand and collect certain information from investors which may be of personal in nature or has never been called for, which information include documents evidencing source of funds / income tax returns/ bank records etc. and sometimes lead to raising of question by the client with regard to the motive and purpose of collecting such information. Hence, we share the information and purpose of AML with our clients.

FOR EXISTING CLIENTS PROCESSES COULD INCLUDE

- Review of KYC details of all the exiting active clients in context to the PMLA 2002 requirements.

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- 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.
- Obtaining of annual financial statements form all clients, particularly those in high risk categories.
- In case of non individuals additional information about the directors, partners, dominant promoters, major shareholders to be obtained.

Punishment for Money –Laundering

Section 4 of the Prevention of Money Laundering Act, 2002 specifies punishment for money laundering as under:-

Whoever commits the offence of money –laundering shall be punishable with rigorous imprisonment for a term which shall no be less than three years but which may extend to seven years and shall also be liable to fine which may extend to five lakh rupees.

REPORTING TO FINANCIAL INTELLIGENCE UNIT-INDIA

The policy will be reviewed once in every six months. In terms of the PML Rules, intermediaries are required to report information relating to cash and suspicious transactions 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>