

## **POLICY OF AMLA - ANTI MONEY LAUDERING POLICY (STOCK BROKING INTERMEDIARY)**

### **INTRODUCTION**

1 The Prevention of Money Laundering Act, 2002 came into effect from 1<sup>st</sup> July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 1<sup>st</sup> July 2005 by the Department of Revenue, Ministry of Finance, Government of India.

2.2 As per the provisions of the Act, 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 Securities and Exchange Board of India 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:

- All cash transactions of the value of more than Rs 10 lacs 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 take place within one calendar month.
- All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non monetary account such as

d-mat 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' should also be considered.

## **Guiding Principles**

These Guidelines have taken into account the requirements of the Prevention of the Money Laundering Act, 2002 as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed guidelines in Part II have outlined relevant measures and procedures to guide the registered intermediaries in preventing money laundering and terrorist financing. Some of these suggested measures and procedures may not be applicable in every circumstance. Each intermediary should consider carefully the specific nature of its business, organizational structure, type of customer and transaction, etc. to satisfy itself that the measures taken by them are adequate and appropriate to follow the spirit of the suggested measures in Part II and the requirements as laid down in the Prevention of Money Laundering Act, 2002.

## **Obligation of registered intermediaries**

International initiatives taken to combat drug trafficking, terrorism and other organized and serious crimes have concluded that financial institutions including securities market intermediaries must establish procedures of internal control aimed at preventing and impeding money laundering and terrorist financing. The said obligation on intermediaries has also been obligated under the Prevention of Money Laundering Act, 2002. In order to fulfill these requirements, there is also a need for registered intermediaries to have a system in place for identifying, monitoring and reporting suspected money

laundering or terrorist financing transactions to the law enforcement authorities.

In light of the above, senior management of a registered intermediary should be fully committed to establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Registered Intermediaries should:

- (a) issue a statement of policies and procedures, on a group basis where applicable, for dealing with money laundering and terrorist financing reflecting the current statutory and regulatory requirements;
- (b) ensure that the content of these Guidelines are understood by all staff members;
- (c) regularly review the policies and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness. Further in order to ensure effectiveness of policies and procedures, the person doing such a review should be different from the one who has framed such policies and procedures;
- (d) adopt customer acceptance policies and procedures which are sensitive to the risk of money laundering and terrorist financing;
- (e) undertake customer due diligence (“CDD”) measures to an extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of customer, business relationship or transaction; and
- (f) develop staff members’ awareness and vigilance to guard against money laundering and terrorist financing.

## **Anti money laundering procedures**

Principal officer should look after the anti money laundering policy and define and review the same in respect of following parameters with the concerned department :

- a. Policy for acceptance and identifying of clients
- b. Transaction Monitoring and reporting of suspicious transaction.

### **a.) Procedure for acceptance and Identifying of clients:**

- Client should be accepted only on the strong reference from existing client or sub broker or management.
- Following KYC document as prescribed by the SEBI / NSE should be obtained from the client
  1. Address proof (Driving license, Passport, Latest bank statement, voter id card etc as prescribed by SEBI / NSE)
  2. PAN card
  3. Bank details (Cancel Cheque / copy of cheque, bank statement/passbook)
  4. Agreement as prescribed by SEBI / NSE.
  5. KYC form
  6. In the case of company MOA/AOA, Board resolution, list of authorized person, director details.
  7. In the case of partnership details of partner, authorized partner list, authority letter
  8. In the case of trust, trust deed, resolution, details of trustee and authorized person.
  9. In the case of NRI details as to which country one belongs to should be obtained and connection in India should be taken
  10. In the case of HUF details of karta should be obtained.

- New client should be always called in person to submit the form and sign in presence of the company official on the form and agreement. For clients introduced through sub broker, sub broker should carry out verification. If in any case, client is not able to come to company's office in person, a company official should ensure that he personally visits the client for the above mentioned process.
  
- It should be ensured that any fictitious (benami) account are not opened by comparing photograph with id proof and verification of client in person.
  
- If any client gives authority to a power of attorney holder to trade on his behalf, than copy of power of attorney should be obtained from such client and reason for the same should be obtained.
  
- Client who has dubious reputation should be not allowed to trade and if after proper checks, he is allowed to trade, the transaction should be monitored closely and regularly all the detail should be obtained from such client.
  
- Alert in account should be maintained that cheque from the client is received of the bank of which detail is provided to us and if it is from different bank account, then detail of such bank account should be obtained, like bank statement, cheque copy etc. and thus genuineness should be obtained that the concerned bank account is of the client only and there are no malafide intentions.

b). Suspicious transaction monitoring and reporting

Following parameters are described for suspicious transaction. If any transaction occurred in following parameters then it should be reported to principal officer immediately.

- Client who have not traded since last 1 year should be classified as dormant and their account should be freezed and when trade is carried out by such client after verifying procedure defined above procedure for acceptance and identifying as prescribed should be followed strictly and account should be unfreezed after proper verification.
- Trade report for trade carried out for more than Rs. 10 lacs in a day should be generated on daily basis and verified that it is not suspicious.
- Client ledger should be scrutinized on monthly basis for client who normally trade for low value and suddenly carried out high value trade.
- Bull deal report as given by Exchange should be verified on daily basis and check that this are authenticate and not suspicious.
- Banned entity should be entered in the system and account of such entity should be freeze for trade and unfreeze after getting details they are permitted to trade. Also, entity that is not traded currently with us but banned, details of such entity should be entered in the system.
- Cash book should be verified on daily basis that no cash transaction is carried out with the client.

- **NRI/Corporate/Trust/Political person/Foreign dealing person** account should be verified for abnormal trade.
- Client who does not provide any required detail as and when required should be classified, as high-risk client and transaction of such client should be reported to principal officer immediately.
  
- Every client should be classified in risk category as follows:

#### LOW RISK CLIENT

- a.) Client who introduced through sub broker, management, who have strong reference
- b.) Client who provide all the KYC document.
- c.) Client who carries out lower value trade
- d.) Client who give KYC details regularly.

#### MEDIUM RISK CLIENT

- a.) Client who are casual in providing KYC detail
- b.) Client who have been registered with the company, without a strong reference or background history

#### HIGH RISK CLIENT

- a.) Client who trade for value above Rs. 10 lakhs and do not have a strong reference or do not have strong back ground history
- b.) High Value Clients who have not updated their KYC detail
- c.) NRI / CORPORATE / TRUST / Political person / foreign Dealing Person without a strong reference or background history

#### REPORTING OF SUSPICIOUS TRANSACTION

After verification of the transaction by the principal officer, if it is found that transaction is suspicious then it should be reported to FIU-India immediately.

#### MAINTENANCE OF RECORDS

- Client document obtained as mentioned in client acceptance and identifying list should be maintained at least for ten years or as prescribed by SEBI / EXCHANGE.
- Any suspicious transaction reported to FIU should be kept for at least five years.
- Details of intimation of Principal Officer to FIU-India should be maintained.
- Transaction history of client should be maintained for last five years.