

**Sankalp Share Brokers Pvt. Ltd.**

**Guidelines for Prevention of**  
**Money Laundering Act, 2002**

# **Client Identification Programme**

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# **Client Identification Programme**

## **Objective**

Clients are the most important asset of the organisation. However, it is essential to have Client's Identity on the record of the organisation and to have regular updation of such records. With the given level of sensitivity in both economic and non-economic terms, it is most important for the survival of the company to have clients with proven identity and ensuring that risk associated thereto is at acceptable level. Various Statutory bodies have prescribed different documents to be obtained to substantiate the identity of client and continuous identity verification through out the transactions entered by the Client. The Company is also under obligation to submit various reports to different statutory bodies containing details and particulars of certain type of transactions and is required to maintain the record thereof. This programme has been formulated to set down the policies and procedures adopted by the Management in this regard.

## **Scope**

The Client Identification Programme gains its scope out of business necessity and compliance requirement of various statutory bodies. This programme is designed to formulate policies, procedures, checks, controls and records that the organisation intends to follow or maintain in respect of:

- (a) Due diligence,
- (b) Client identification,
- (c) Customer acceptance,
- (d) Risk analysis,
- (e) Documentary requirement,
- (f) Submission of report to statutory authorities,
- (g) Retention of records etc.

## **Various types of Client**

The Company operates in two segments:

- (a) Share Broking
- (b) Depository Services

Both the activities are well regulated by different statutory bodies like SEBI, NSE, BSE, MCX-SX, CDSL etc. These statutory bodies have inter-alia laid down norms in respect of opening of Client Accounts – both trading account for Share Broking Segment and Demat Account for Depository Services.

The Company may have following types of Clients:

- (i) Individual
- (ii) Partnership Firm
- (iii) Minor
- (iv) Hindu Undivided Family
- (v) Body Corporates
  - (a) Pvt. Ltd. Company
  - (b) Public Ltd. Company
- (vi) Trust / Society
- (vii) Non-Resident Indians
- (viii) Non- Resident / Foreign Nationals
- (ix) Domestic Financial Institutions (Other than Banks & Insurance)
- (x) Bank
- (xi) Insurance
- (xii) Statutory Bodies
- (xiii) Foreign Institutional Investors
- (xiv) OCB

Other types for Clients include

- (i) Illiterate Clients
- (ii) Deceased Clients
- (iii) Joint Holding

Guidelines have been formulated by different statutory bodies prescribing therein limitations or restrictions for opening/ maintenance of accounts.

Hence at the time of opening of any new client account, such limitations or restrictions are to be adhered to and any query in this regard may be forwarded to Compliance Officer.

## **Due Diligence of Client**

The relation of the Company with the client or better to say proposed client comes into existence from the moment the client seeks opening of account with the company. This is the most important part of client identification programme and before opening the account of the client it is of utmost importance to conduct due diligence. Whereas for DP Segment, it is necessary to have an introducer, for trading segment, though KYC or better known as Client Registration Form has column(s) for introducer, it is not mandatory to have an introducer. In either of the case, antecedents of the client should be verified and checked to the extent possible. Whereas the primary source of checking and verification is through obtaining documents, but wherever required, the company may even hire outside agencies to verify the antecedents of client or correctness of documents/details furnished by the client or proposed client. Wherever, a client is introduced by another client or an officer or an employee of the company, the introducer should be clearly communicated about roles and responsibilities caste upon him in respect of client(s) so introduced by him. SEBI has made MAPIN ID mandatory for certain types/class of investors and also obtaining PAN No. or otherwise a declaration thereto.

The due diligence process is not restricted to opening of account but is a continuous process and all of the clients' account will be subjected to due diligence on continuous basis. The company adopts following due diligence measures:

(a) Obtaining 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 should 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) Verify the customer's identity using reliable, independent source documents, data or information;

(c) Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the customer and/or the person on whose behalf a transaction is being conducted;

(d) Verify the identity of the beneficial owner of the customer and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c); and

(e) 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 company's knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer's source of funds.

(f) Before opening the account, the Company shall visit website [www.un.org/sc/committees/1267/consolist.shtml](http://www.un.org/sc/committees/1267/consolist.shtml) to ensure that the name of the proposed client is not on the list.

(g) „Clients of Special Category“ should also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.”

## **Risk Analysis**

Based on the output of due diligence procedure, the Company shall analyze the risk posed by the client. Apart from regular financial and business risk, the company shall be careful of risks it is exposed to from “Clients of Special Category” which includes the followings:

- a) Clients with dubious reputation as per public information available etc.
- b) Clients“ not visiting office for opening of accounts.
- c) Clients in whose case mails are returned undelivered.
- d) Clients willing to pay in cash.
- e) Clients willing to trade in exceptionally large volume as compared to their financial position evident from their financial records.
- f) Clients located in a known notorious locality
- g) Clients introduced by someone, who himself does not have a sound or satisfactory record.
- h) Clients whose transaction gives rise to a reasonable ground of suspicion that it may involve financing of activities relating to terrorism.
- i) Clients whose transaction appears to have no economic rationale or bonafide purpose.
- j) Clients whose transaction may involve proceeds of an offence specified in the act.
- k) 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.
- l) Non Resident clients.
- m) Clients having high net-worth.
- n) Trust, Charities, NGO“s and organizations receiving donations.
- o) Body Corporate having close family shareholding and beneficial ownership.
- p) 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.
- q) Companies offering foreign exchange offerings.

Depending upon other complexities, there may be other risk factors which also need to be given due consideration. Such risks shall be analyzed and depending upon the risk posed, the associated client may be categorized under Low, Medium, and High Risk Category. It is further clarified that risk analysis shall also be a continuous function in order to identify the risks of non-compliance and potential violation of different statutes like SEBI, PMLA etc.

## **Client Acceptance Policy**

The company shall follow a policy of filtering the account opening requests of the client. The decision of accepting or not accepting is dependent upon different factors discussed hereinabove including risk analysis. The broad client acceptance policy is stated hereunder:

- a) Clients under high risk category, in general, will not be accepted. However, risk analysis chart or working may be placed before compliance officer, who shall take a final decision in this regard.
- b) Clients attempting to open account in a fictitious/ benami name or on an anonymous basis shall not be accepted.
- c) Clients failing to produce required documentary evidences shall not be accepted.
- d) Client shall not be accepted where the company 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 company is suspected to be non genuine, perceived non cooperation of the client in providing full and complete information.

## **Acceptance of Clients of Special Category**

In case the client belongs to special category then the Company shall accept the client subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

- a) Apart from regular documentary evidences like proof of identity and proof of address, additional documents have been obtained from the client.
- b) Will access publicly available information about the client.
- c) Will assess the public image of the client.
- d) Obtain any other documents for the necessary purpose.
- e) Where sources of funds have been verified and found reasonably satisfying.
- f) Acceptance of the client will be made only if the senior management and the compliance officer are satisfied with the additional information mentioned herein above.



## **Documentary Evidences to be Obtained**

Whenever a new Client account is proposed to be opened, certain documentary evidences are to be obtained from the proposed Client. The requirement of collection of documentary evidence centre on basic two criteria"s. They are:

- (b) Proof of Identity, and
- (c) Proof of Address.

Besides above two, further requirement relate to considerations like:

- (a) Proof of Bank account
- (b) Proof of Demat Account
- (c) Financial Status
- (d) Nature of Business

The documentary requirements are prescribed by different statutory bodies and are mandatory in nature. Failure on the part of the Company to obtain documentary evidences may entail penalties and other consequences.

## **Documentary Requirements discussed in detail**

### **(A) Under PMLA Act, 2002.**

Rules 9 & 10 of Prevention of Money –Laundering (Maintenance of Records of the Nature and value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 contains requirements to be complied with under PMLA Act, 2002.

In terms of Rule 9, the requirement relates to Verification and Maintenance of the record of

- (i) Identity of the Client,
- (ii) Current Address or Addresses of the Client, and,
- (iii) Nature of Business of the Client, and,
- (iv) Financial Status of the Client.

The documentary requirements are presented in tabular form:

<b>Type of Client</b>	<b>Documentary Requirement</b>	<b>No. of Certified Copy to be taken</b>
Individual	Officially valid document containing details of (i) Permanent address or addresses, (ii) Recent Photograph (iii) Such other documents including in respect of the nature of business and financial status of the Client, as may be required by the company	One One One
Company	(i) Certificate of Incorporation (ii) Memorandum and Articles of Association (iii) A resolution from the board of Directors and power of attorney granted to its Managers, Officers or employees to transact on its behalf. (iv) An Officially valid document in respect of Managers, Officers or Employees holding an attorney to transact on its behalf.	One One One One
Partnership Firm	(i) Registration Certificate (ii) Partnership deed (iii) An Officially valid document in respect of the person holding an attorney to transact on its behalf	One One One
Trust	(i) Registration Certificate (ii) Trust deed (iii) An Officially valid document in respect of the person holding an attorney to transact on its behalf	One One One
Unincorporated association or a body of	(i) Resolution of the managing body of such association or body of individuals.	One

individuals	(ii) Power of Attorney granted to him to transact on its behalf	One
	(iii) An Officially valid document in respect of the person holding an attorney to transact on its behalf	One
	(iv) Such information as may be required to establish the legal existence of such an association or body of individuals.	One

**Officially Valid Document means the passport, the driving license, the Permanent Account Number (PAN) Card, the Voter's Identity Card issued by the Election Commission of India or any other document as may be decided by the Company.**

## **(B) By SEBI for DP Segment**

### **(a) Non-Body incorporation like Individual, HUF, Trust, Partnership firms etc.**

In terms of SEBI Circular No. SMRDP/Policy/Cir-36/2000 dated 04.08.2000 & Circular No. MRP/DoP/Cir-29/2004 dated 24.08.2004, the company is required to obtain documents towards Poof of Identity & Proof of Address. There are:

#### **(i) Proof of Identity:**

Any one of the following should be obtained

I. Passport

II. Voter ID Card

III. Driving license

IV. PAN card with photograph

V. MAPIN card

VI. Identity card/document with applicant's Photo, issued by

a) Central/State Government and its Departments,

b) Statutory/Regulatory Authorities,

c) Public Sector Undertakings,

d) Scheduled Commercial Banks,

e) Public Financial Institutions,

f) Colleges affiliated to Universities (**this can be treated as valid only till the time the applicant is a student**),

g) Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members; and

h) Credit cards/Debit cards issued by Banks.

**Proof of Address:**

Any one of the following should be obtained

I. Ration card

II. Passport

III. Voter ID Card

IV. Driving license

V. Bank passbook

VI. Verified copies of

a) Electricity bills (**not more than two months old**),

b) Residence Telephone bills (**not more than two months old**)  
and

c) Leave and License agreement / Agreement for sale.

VII. Self-declaration by High Court & Supreme Court judges, giving the new address **in respect of their own accounts**.

VIII. Identity card/document with address, issued by

a) Central/State Government and its Departments,

b) Statutory/Regulatory Authorities,

c) Public Sector Undertakings,

d) Scheduled Commercial Banks,

e) Public Financial Institutions,

f) Colleges affiliated to Universities (**this can be treated as valid only till the time the applicant is a student**) and

g) Professional Bodies such as ICAI, ICWAI, Bar Council etc., to their Members.

**(iii) Joint Holding**

In case of joint holdings, Proof of Identity and Proof of Address as stated in (i) and (ii) above must be collected in respect of all account holders.

**(iv) Verification of Photocopies**

Photocopies of document(s) stated in (i) and (ii) above should be verified with their corresponding originals and an authorised official should put his/her signature on the photocopies with remarks “Verified with original”.

**(b) Body Incorporates**

The company is required to obtain documents towards Proof of Identity & Proof of Address. There are:

- (i) Memorandum & Articles of Association (MOA & AOA), board resolution for opening demat account and the list of authorised signatories” alongwith their specimen signatures and photographs, etc.
- (ii) Introduction by an existing account holder or by the applicant's bank.
- (iii) Proof of address of the corporate evidenced by the document registered with Registrar of Companies or acknowledged copy of Income Tax Return or Bank Statement or Leave and License agreement/Agreement for sale.

**(C) By SEBI for Trading Segment**

**(a) For Individual**

In terms of Circular No. SEBI/MIRSD/DPS-1/Cir-31/2004 dated 26<sup>th</sup> August, 2004; the company is required to obtain documents towards Proof of Identity & Proof of Address. There are:

**(i) Proof of Identity:**

Any one of the following should be obtained

- I. MAPIN UID Card
- II. Pan No.
- III. Passport
- IV. Voter ID

V. Driving license

VI. Photo Identity card issued by Employer registered under MAPIN

**(ii) Proof of Address:**

Any one of the following should be obtained

I. Passport

II. Voter ID

III. Driving license

IV. Bank Passbook

V. Rent Agreement

VI. Ration Card

VII. Flat Maintenance Bill

VIII. Telephone Bill

IX. Electricity Bill

X. Certificate issued by employer registered under MAPIN

XI. Insurance Policy

**(iii) Verification of Photocopies**

Photocopies of document(s) stated in (i) and (ii) above should be verified with their corresponding originals.

**(b) For Corporates, Firms & Others**

In terms of Circular No. SEBI/MIRSD/DPS-1/Cir-31/2004 dated 26<sup>th</sup> August, 2004; the company is required to obtain documents towards Proof of Identity & Proof of Address. There are:

1. Copies of the balance sheet for the last 2 financial years (copies of annual balance sheet to be submitted every year)
2. Copy of latest share holding pattern including list of all those holding more than 5% in the share capital of the company, duly certified by the company secretary/ whole –time director/MD. (Copy of updated shareholding pattern to be submitted every year)
3. Copies of the Memorandum and Articles of Association in case of a company / body incorporate / partnership deed in case of a partnership firm

4. Copy of the Resolution of board of directors' approving participation in equity / derivatives / debt trading and naming authorized persons for dealing in securities.

5. Photographs of Partners/Whole time directors, individual promoters holding 5% or more, either directly or indirectly, in the shareholding of the company and of persons authorized to deal in securities.

Photocopies of document(s) stated hereinabove should be verified with their corresponding originals.

## **Procedure for Change of Address**

### **(a) Non-Body incorporation like Individual, HUF, Trust, Partnership firms etc.**

1) While processing requests for change of address received from Clients, the company shall obtain the following documents:

- a) A written application for change of address from the Client. (In case of joint holdings, all holders must sign the application);
- b) Proof of identity (copy of any one of the documents mentioned above);
- c) Latest transaction statement of the account received from the Company;
- d) Proof of new address (copy of any one of the documents above) alongwith the original documents of the new address.

2) The Client should personally visit the office of the company where the Client maintains and operates his/her account and submit the application for change of address. However, in case the Client expresses inability to personally visit the office of the company, the application for changes of address alongwith other documents can be submitted through an authorised representative, whose identity the company must verify.

3) The Client or its authorised representative should sign the application once again in the presence of the officials of the company.

4) The officials of the company shall verify the signature of the Client on the application and the identity documents with the documents maintained with the company. Further, the document pertaining to new address should be verified with the original. After due verification, an authorised official of the company shall put his/her signature on the application with remarks "***verified with original***" and thereafter record the change of address in the DPM system.

5) However, in case company could not verify the documents because the records of the documents submitted by the Client are kept at a different place, then the same

must be verified within a period of seven working days and only then effect the change.

6) After effecting the change of address in the DPM system, a communication to the Client shall be send, confirming the change of address, to the old and the new addresses.

## **(b) Body Incorporates**

(1) A written application for change of address of the corporate entity, signed by all the authorised signatories should be submitted to the company.

(2) Following documents should be submitted alongwith the application:

(a) Latest transaction statement of the corporate's account received from the Company.

(b) Proof of new address (copies of the aforementioned documents) alongwith the original document of new address, for verification by the Company.

(3) Atleast one of the authorised signatories should visit the office of the company in person to submit its application for change of address alongwith necessary documents and sign the application once again in the presence of the officials of the company.

(4) An authorised official of the company shall verify the application and the abovementioned documents with the original and put his/her signature on the application with remarks "**verified**" and thereafter record the change of address in the DPM system.

(5) A letter shall be sent to the Client at the old address as well as the new address to confirm the change of address.

## **Procedure For Change Of Signature**

1. The Client should make a request in writing specifying reasons for change in signature.
2. New signature should be duly attested by Client's banker.
3. Client should visit office of the company in person and produce valid proof of identity as well as the latest transaction statement of its account.
4. In the presence of officials of company, Client should affix his/her new signature.
5. An authorised official of the company shall, under his signature, verify the identity proof with the proof and photograph that were furnished at the time of opening of account and thereafter, if found satisfactory, make necessary changes in its records.



## **Procedure for Change of Signatories**

In case of non-individual clients, there is a possibility that signatories may be required to be changed. For example, in the case of HUF, the Karta may change due to death. In the case of a body corporate and/or Trust, authorised signatories may undergo change over a period of time. In such an eventuality, the company shall follow the following procedure:

- (a) A written request for change of signatories has to be forwarded to the company by the client.
- (b) The request shall be accompanied with appropriate, valid, legally enforceable resolution or authority, as the case may be empowering such change of signatories.
- (c) Consent of the whole of the management and in the case of HUF, all the members shall also be enclosed along with request for change of signatories.
- (d) Where change in signatories is necessitated due to death, a copy of the death certificate shall also be enclosed.
- (e) Wherever possible, the company may obtain no objection from the signatories sought to be removed.
- (f) Necessary due diligence and risk analysis shall be conducted by the company.
- (g) Documentary evidences in respect of proof of identity and proof of address as required in respect of the proposed new signatory and/or signatories shall be obtained and verified.
- (h) To the extent applicable, formalities required in respect of opening of a new account including filling up of a fresh Client Registration Form, shall be complied with.
- (i) The matter shall be forwarded to compliance officer who shall be the person in charge to effect the change.

## **Nature of Business**

As per the provisions of the PMLA, 2002 and rules framed under that Act, it is necessary to obtain the Nature of Business of the Client. Besides, Client is required to fill up nature of business at the time of submitting Client Registration Form or Account Opening Form, as the case may be.

A self declaration from the client must be obtained to get the nature of business at the time of opening the account of the proposed client and periodically the Company shall seek confirmation from the client to ensure the nature of business recorded with the Company is current. As far as possible, Trade License should be obtained from the client to establish the nature of business of the client and during the period, the client remains a customer of the Company, renewed copy of the trade license shall be obtained in each year and kept on record of the Company. The Company may also take such steps as are necessary to ascertain the nature of business of the Client or proposed Client including hiring the outside agencies or professionals for the purpose.

In this context, it is relevant to note that wherever there is a reason for doubt about the legality of the business, extra measures should be initiated to ascertain the precise nature of business of the client and in case it comes to the knowledge of the Company that Client is engaged in illegal business or activity, the same should be promptly reported to the compliance officer and compliance officer shall take necessary steps in the matter including reporting the same to the statutory authorities. The account of all those clients having a pre-determined monthly turnover or introducing more than pre-determined number of clients shall be closely monitored to ascertain the possibility of illegal business or activity carried on by the client. The Compliance Officer shall decide the threshold limit of monthly turnover and no. of clients introduced and the same shall be communicated to field staff.

## **Financial Status of the Client**

It is also very necessary for the Company to be aware of the financial status of the Client or proposed client. The financial status of the client has a direct bearing on the business risk of the Company.

As far as possible, the client(s) shall be allowed to transact business only on availability of appropriate margin in the clients' account as prescribed by SEBI. However, even though, margin is collected, or where client is permitted to transact otherwise, it is necessary to ascertain the solvency position of the client and also to initiate necessary steps in timely manner.

Whereas in the case of Body Corporates, SEBI has made it mandatory to obtain the Balance Sheet annually, it will be the endeavor of the Company to obtain the Financial Statement and Income Tax Acknowledgement receipts from all of the clients of the Company. The compliance officer shall scrutinize such financial

statements and in case he/she has any reason to doubt of the financial solvency of the client, he/she shall initiate such steps as are necessary in this respect including revising or refusing the client to transact business with them. Field staffs shall be adequately trained to understand the doubtful nature of transaction/activities like:

- a) Frequent change of Bank Account
- b) Frequent change of DP Account
- c) Frequent bouncing of cheques
- d) Sudden surge in number and volume of transactions and vice versa, etc.

Wherever, the Company is not provided with financial statements of the Company, depending upon the behaviour of the account of the Client with the Company, the Company may also take such steps as are necessary to ascertain the financial status of the Client or proposed Client including hiring the outside agencies or professionals for the purpose.

### **Operation of Account by Third Party**

In general, operation in trading account or Demat Account shall be carried out by the account holder only and operation by third parties shall not be allowed. However, where a valid power of attorney/ written authorisation is executed by a client in favour of a third party and a copy of which is forwarded by the client to the company, operations may be allowed subject to due diligence of such third party and compliance Officer alone is empowered to allow or disallow such third party to operate the account of the client under reference.

### **Continuous verification of Identity of the Client**

Verification of Identity of Client is not one time affair. Due diligence and verification is required to be carried out to verify the identity of the client at the time of opening the account. However, it is equally necessary that the identity of the client is verified at all times during which he/she remain client of the Company. Provisions of PMLA 2002 and rules framed there under prescribes that identity of the client shall be verified at the time of executing any transaction.

Proof of Identity, Proof of Address, Nature of Business and Financial Status are the basic documents to substantiate the identity of the Client. The Company shall keep all of them current. There may be circumstances when identity of client changes, like,

- e) Minor attaining majority
- f) Change in Karta of the HUF
- g) Change of Surname due to marriage, etc.

Similarly, there can be change of address, telephone nos., nature of business. It is therefore very necessary for the Company to keep its record updated. While the introducer of the client has the most important role to play in this regard, the

Company shall also initiate such other steps as are necessary to continuously verify the identity of the client. Some of such measures are;

- a) Ensuring that all the cheques given by the client are of the bank and branch which was filled up by him at the time of opening of account or otherwise subsequently changed by him following the proper procedure and submission of relevant documentary evidence.
- b) Ensuring that deliveries effected by the client are from the Demat Account stated by him at the time of opening of account or otherwise subsequently changed by him following the proper procedure and submission of relevant documentary evidence.
- c) Periodical postal dispatch of contract notes, statements at the given address of the client to ensure that address recorded with the Company is current.
- d) Sending a welcome letter on opening the account with the Company.
- e) Periodically making a telephone call to the client and asking the client to visit the office or otherwise periodically asking the field staff to visit the client.
- f) Obtaining various documents at yearly intervals like
  - i) Financial Statements
  - ii) Income Tax Acknowledgement Receipts
  - iii) Trade License, etc.

The company shall always remain vigilant of suspicious or potential 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.
- i) The Company shall regularly visit website [www.un.org/sc/committees/1267/consolist.shtml](http://www.un.org/sc/committees/1267/consolist.shtml) to ensure that the name of the client/proposed client is not on the list.

## **Record Keeping**

The Company shall keep itself updated to 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 and amendment made therein from time to time.

Various documents obtained including Client Registration Form or Account Opening Form shall be properly kept by the Company. Besides, different regulatory authorities have also prescribed records and documents that are required to be kept and maintained by the Company.

The Company shall 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. To enable this reconstruction, company shall retain the following information for the accounts of the customers 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, e.g. cash, cheques, etc.;
  - the identity of the person undertaking the transaction;
  - the destination of the funds;
  - the form of instruction and authority.

The documents/records may be obtained/ maintained in hard copy or soft copy but in either of the case, same needs to be properly maintained and the Company is under obligation to produce the same as and when asked by different statutory

bodies. It shall be the duty of the compliance officer to ensure that documents obtained by the Company are kept properly and are available for retrieval as and when required.

The Company is mandatorily required to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA. Such transactions include:

- (a) All cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.
- (b) 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 and the aggregate value of such transactions exceeds Rs 10 lakhs.
- (c) 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.
- (d) 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 company.

In addition to it the Company shall and preserve the following information in respect of transactions referred to in Rule 3 of PMLA Rules:

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

*For the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' should also be considered.*

## **Retention of Records**

Rule 10 of Prevention of Money –Laundering (Maintenance of Records of the Nature and value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005 prescribes that records of the identity of clients shall be maintained for a period of ten years from the date of cessation of the transaction between the client and the Company.

Rule 6.1.4 of NSEIL-Regulations Part A provides that Trading Members shall maintain and preserve for a period of seven years a mapping of client IDs along with client name, address and other particulars given in the Know Your Client Form.

Rule 6.1.12 of NSEIL-Regulations Part A provides that every Trading Member shall preserve for a period of not less than six years after the closing of any constituent's account any records which relate to the terms and conditions with respect to the opening and maintenance of such account, date of entering into agreement with the constituent, date of modification thereof, date of termination and representatives of such constituent who signed in each case.

***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.***

It is therefore evident that different time period of retention has been provided under different statutes. The company, therefore, shall retain the records in terms of the statute which provide for retention of records for the maximum period, which as of now happens to be Rule 10 as stated above.

The Company shall ensure that all customer and transaction records and information are available on a timely basis to the competent investigating authorities.

## **Submission of Reports/Documents**

The company is required to submit different documents to different statutory bodies-some of them are of routine nature and some are event based. The company shall ensure that compliances in respect of these requirements are met in a timely manner and Compliance Officer of the company shall ensure that there is no incidence of non-compliance. Whereas, in general, reports/documents to NSE/SEBI are required to be submitted in monthly/quarterly/half yearly or yearly intervals, the Cash Transaction Report (CTR) & Suspicious Transaction Report are event based report and are to be submitted in the prescribed format within 15<sup>th</sup> of the succeeding month in the case of CTR and in the case of STR, within 7 days of arriving at a conclusion that any transaction whether cash or non-cash, or a series of transactions as suspicious.

The Principal Officer, designated as Compliance Officer for the purpose of compliance under PMLA, shall be a person of sufficiently higher hierarchy so as to be able to discharge his functions with independence and authority. The Principal Officer shall have access to and be able to report to senior management above his/her next reporting level or the Board of Directors.

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

The Company shall ensure regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money Laundering procedures. To achieve the goal the Company shall:

- a) Determine a normal benchmark of transactions for each client and develop a reporting system for transactions beyond the normal benchmark.
- b) Pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and related documents should be made available to auditors and also to SEBI /Stock Exchanges/FIU-IND/Other relevant Authorities, during audit, inspection or as and when required. These records are required to be preserved for ten years as is required under PMLA 2002.
- c) Transaction of suspicious nature or any other transaction notified under section 12 of the act would be regularly reported to the higher authorities / head of the department.
- d) A record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 as discussed under the head “Retention of Records”.
- e) A compliance cell will be formulated by the Company which shall 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.
- f) Take appropriate steps to enable suspicious transactions to be recognised and have appropriate procedures for reporting suspicious transactions. While determining suspicious transactions, intermediaries should be guided by definition of suspicious transaction contained in PML Rules as amended from time to time.
- g) A list of illustrative circumstances which together the background, details of the transactions and other facts and circumstances will be treated as suspicious transactions. These are as below:
  - i) Clients whose identity verification seems difficult or clients appears not to cooperate
  - ii) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;



- iii) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
  - iv) Substantial increases in business without apparent cause;
  - v) Unusually large cash deposits made by an individual or business;
  - vi) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
  - vii) Transfer of investment proceeds to apparently unrelated third parties;
  - viii) 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.
- h) Any suspicion transaction would be immediately notified to the Compliance Officer the Company. It will be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it would 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. Only 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. In order to enable the Principal Officer/Money Laundering Control Officer and other appropriate compliance, risk management and related staff members to execute their responsibilities, they shall have timely access to customer identification data and other CDD information, transaction records and other relevant information.
- i) In cases transactions have been abandoned/ aborted by customers on being asked to give some details or to provide documents. The company would report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.
- j) Details of such transactions shall also be provided to Director, Financial Intelligence Unit-India (FIU-IND).
- k) The company shall ensure that the Cash Transaction Report (CTR) (wherever applicable) for each month would be submitted to FIU-IND by 15th of the succeeding month.
- l) The company shall ensure that 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 or any transaction involving proceeds of crime. The Principal Officer would record his reasons for treating any transaction or a series of transactions as suspicious. It would be ensured that there is no undue delay in arriving at such a conclusion.
- m) While dealing with clients in high risk countries where existence/effectiveness of money laundering control is suspect, it is clarified that apart from being guided by the Financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations, published by the

FATF on its website ([www.fatfgafi.org](http://www.fatfgafi.org)), the company should independently access and consider other publicly available information

- n) 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. Such procedures should include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures and should also be applicable where the beneficial owner of a client is PEP”.
- o) The company shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP”.

### **Employees’ Hiring/Employee’s Training/ Investor Education**

The Company shall ensure that it would work in areas relating to employees and investors education to smoothen the process of PMLA compliances. With regard to this the Company shall:

- a) Have adequate screening procedures in place to ensure high standards when hiring employees. We would identify the key positions within our own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.
- b) It would have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements would have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new customers. The company shall make them fully understand the rationale behind these guidelines, obligations and requirements; implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.
- c) The company would try at its level best to educate the investors about these requirements as the ones emanating from AML and CFT framework. This would be done by circulating timely literatures/ pamphlets etc. about the objectives of the AML/CFT programme as well as by personal sitting with the investors.

### **Audit Function**

The Company shall ensure that the policies and procedures stated in this programme is followed inadvertently and for the purpose, the scope of the internal audit shall be

enlarged to ensure compliance with policies, procedures, and controls relating to prevention of money laundering and terrorist financing, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff of their responsibilities in this regard.

## **Changes and Modification of the Programme**

The programme once developed shall be adopted by the Board of the Company and the Compliance Officer shall own the programme. The copy of the programme shall be forwarded to all concerned employees and field staff of the Company to create the understanding and awareness about rules, roles and responsibilities related or connected with Client Identification. Any queries or doubts shall be forwarded to the Compliance Officer, who shall be under obligation to resolve the query or the doubt.

However, rules and laws governing the business of the Company are very dynamic and undergo change from time to time. This programme is therefore also required to respond to such changes which in turn require addition, modification or deletion of some or all the clauses of this programme. The Board has therefore decided to conduct & review the changes if any once in a year.

The Compliance Officer of the Company shall be responsible to ensure that this programme remains current at all times and suitable changes, addition, modification, deletion is made from time to time and such changes will be required to be approved by the Board and subsequent adoption by the Board.