

**ANNEXURE 4**

**RAJGUL SECURITIES PRIVATE LIMITED**

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**POLICY FOR THE PREVENTION OF MONEY  
LAUNDERING ACT, 2002**

***Brief Background:***

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July 2005. As per the Circular no. ISD/CIR/RR/AML/1/06 dated January 18, 2006 laying down broad guidelines on Anti Money Laundering Standards; all the brokers registered with SEBI under Section 12 of the SEBI Act were advised to ensure that a proper policy framework on anti-money laundering measures is put into place within one month from the date of the circular.

Under the guidelines, the brokers were also advised to designate an officer as 'Principal Officer' who would be responsible for ensuring compliance of the provisions of the PMLA. Names, designation and addresses (including e-mail addresses) of 'Principal Officer' shall also be intimated to the Financial Intelligence Unit, India on an immediate basis.

The circular contains detailed guidelines for:

- 1. Maintenance of records of transactions**
- 2. Information to be maintained**
- 3. Maintenance and Preservation of records**
- 4. Reporting to Financial Intelligence Unit-India**
- 5. Customer Due Diligence**
- 6. Policy for acceptance of clients**
- 7. Risk-based Approach**
- 8. Clients of special category (CSC)**
- 9. Client identification procedure**
- 10. Record Keeping**
- 11. Retention of Records**
- 12. Monitoring of transactions**
- 13. Suspicious Transaction Monitoring & Reporting**
- 14. Designation of an officer for reporting of suspicious transactions**
- 15. High standards in hiring policies and training with respect to anti-money laundering**

**1. Maintenance of Records of Transactions:**

All the brokers shall put in place a system of maintaining proper record of below mentioned transactions in formats as prescribed:

- (i) all cash transactions of the value of more than Rupees Ten Lacs or its equivalent in foreign currency;
- (ii) all series of cash transactions integrally connected to each other which have been valued below Rupees Ten Lacs or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rupees Ten Lacs;

- (iii) 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;
- (iv) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

## **2. Information to be maintained**

Brokers are required to maintain and preserve the following information in respect of transactions referred to above:

- (i) the nature of the transactions;
- (ii) the amount of the transaction and the currency in which it was denominated;
- (iii) the date on which the transaction was conducted; and
- (iv) the parties to the transaction.

## **3. Maintenance and Preservation of records**

The records mentioned above along with the identity of the clients have to be maintained and preserved for a period of ten years from the date of cessation of the transactions between the client and intermediary.

## **4. Reporting to Financial Intelligence Unit-India**

In terms of the PMLA rules, brokers are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND).

Brokers should carefully go through all the reporting requirements and formats for reporting to the FIU. These requirements and formats are divided into two parts- Manual Formats and Electronic Formats. Brokers should adhere to the following:

- (a) The cash transaction report (CTR) (wherever applicable) for each month should be submitted to FIU-IND by 15th of the succeeding month.
- (b) 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.

- (c) The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND;
- (d) Utmost confidentiality should be maintained in filing of CTR and STR to FIUIND.

Brokers should not put any restrictions on operations in the accounts where an STR has been made. Further, it should be ensured that there is no tipping off to the client at any level.

## **5. Customer Due Diligence**

The customer due diligence (“CDD”) measures comprises the following:

- 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 registered intermediary’s knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer’s source of funds

## **6. Policy for acceptance of clients:**

All registered intermediaries should develop customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. By establishing such policies and procedures, they will be in a better position to

apply customer due diligence on a risk sensitive basis depending on the type of customer business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients:

- a) No account is opened in a fictitious / benami name or on an anonymous basis.
- b) 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 should enable classification of clients into low, medium and high risk. Clients of special category (as given below ) may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of KYC profile.
- c) Documentation requirement and other information to be collected in respect of different classes of clients depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.
- d) Ensure that an account is not opened where the intermediary 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 intermediary is suspected to be non genuine, perceived non cooperation of the client in providing full and complete information. The market intermediary should not continue to do business with such a person and file a suspicious activity report. It should also evaluate whether there is suspicious trading in determining in whether to freeze or close the account. The market intermediary should be cautious to ensure that it does not return securities of money that may be from suspicious trades. However, the market intermediary should consult the relevant authorities in determining what action it should take when it suspects suspicious trading.
- e) The circumstances under which the client is permitted to act on behalf of another person / entity should be clearly laid down. It should be specified in what manner the account should 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 should be clearly laid down). Adequate verification of a person's authority to act on behalf the customer should also be carried out.
- f) 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.

## **7. Risk-based Approach**

It is generally recognized that certain customers 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. As such, the registered intermediaries should apply each of the customer due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries 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, the type and amount of identification information and documents that registered intermediaries should obtain necessarily depend on the risk category of a particular customer.

## **8. Clients of special category (CSC):**

Such clients include the following

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

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

**9. Client Identification Procedure:**

The 'Know your Client' (KYC) policy should clearly spell out the client identification procedure to be carried out at different stages i.e. while establishing the intermediary – client relationship, while carrying out transactions for the client or when the intermediary has doubts regarding the veracity or the adequacy of previously obtained client identification data.

The client should be identified by the intermediary by using reliable sources including documents / information. The intermediary should obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

The information should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the Guidelines. Each original document should be seen prior to acceptance of a copy.

Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority within the intermediary.

SEBI has prescribed the minimum requirements relating to KYC for certain class of the registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, all registered intermediaries should frame their own internal guidelines based on their experience in dealing with their clients and legal requirements as per the established practices. Further, the intermediary should also maintain continuous familiarity and follow-up where it notices inconsistencies in the information provided. The underlying principle should be to follow the principles enshrined in the PML Act, 2002 as well as the SEBI Act, 1992 so that the intermediary is aware of the clients on whose behalf it is dealing.

**10. Record Keeping:**

Registered intermediaries should 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.

Registered Intermediaries should 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 behaviour.

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 a financial profile of the suspect account. To enable this reconstruction, registered intermediaries should retain the following information for the accounts of their 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.

Registered Intermediaries should ensure that all customer and transaction records and information are available on a timely basis to the competent investigating authorities. Where appropriate, they should consider retaining certain records, e.g. customer identification, account files, and business correspondence, for periods which may exceed that required under the SEBI Act, Rules and Regulations framed there-under PMLA 2002, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

#### **11. Retention of Records:**

The following document retention terms should be observed:

- (a) All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period prescribed under the relevant Act (PMLA, 2002 as well SEBI Act, 1992) and other legislations, Regulations or exchange bye-laws or circulars.
- (b) 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 same period.

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.

#### **12. Monitoring of Transactions:**

Regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money Laundering procedures. This is possible only if the intermediary has an understanding of the normal activity of the client so that they can identify the deviant transactions / activities.



Intermediary should pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. The intermediary may specify internal threshold limits for each class of client accounts and pay special attention to the transaction which exceeds these limits.

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

Further the compliance cell of the intermediary should 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.

### **13. Suspicious Transaction Monitoring & Reporting:**

Intermediaries should ensure to take appropriate steps to enable suspicious transactions to be recognised and have appropriate procedures for reporting 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.

Any suspicion transaction should be immediately notified to the Money Laundering Control Officer or any other designated officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, 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.

**14. Designation of an officer for reporting of suspicious transactions:**

To ensure that the registered intermediaries properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions.

**15. High standards in hiring policies and training with respect to anti-money laundering:**

The registered intermediaries should have adequate screening procedures in place to ensure high standards when hiring employees. They should identify the key positions within their 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. The registered intermediaries must provide proper anti money laundering and anti-terrorist financing training to their staff members.

**POLICY FOR ACCEPTANCE OF CLIENTS:**

- a) Obtain sufficient information in order to verify the identity of the client. Make sure that no account is opened unless all the documents as required have been received and attested by the client. Take the copies of all the following documents:
  - I. PAN Card
  - II. Permanent/ correspondence address proof
  - III. Bank details (cancelled cheque or bank statement)
  - IV. Passport size photo
- b) Before taking the copy of the documents, validate the same from the originals.
- c) The completeness and accuracy of the documents provided by the client shall be checked by the person collecting the documents and further cross verified by the person responsible for opening of accounts.
- d) The KYC, MCA and RDD should be filled and signed by the client and the broker wherever required in the latest formats as prescribed by SEBI.
- e) The authorization letter should be signed by the client.
- f) The PAN should be authenticated from the Income tax of India website.
- g) Categorize the clients into High, medium and low risk clients based on the various factors as stated above in the guidelines or deemed appropriate like clients' location, nature of business, trading turnover, manner of making payment for transactions undertaken etc. In line with the risk-based approach, the type and amount of identification information and documents that should be obtained shall depend on the risk category of a particular client.

Enhanced client due diligence process should be adopted for higher risk categories of clients as considered appropriate. An in-person meeting should be held with the of high risk clients by atleast one of the directors of the company. Additional information as considered appropriate should be gathered from reliable sources about the nature of the business, trading turnover and history of the prospective client in stock market dealings.

Conversely, adopt a simplified client due diligence process for lower risk categories of clients.

- h) Obtain confirmations from the clients to make note of any change in the details provided by the clients on an annual basis.
- i) Monitor closely the trades executed by the client to detect and evaluate any suspicious transactions. Nature of suspicious transactions is given 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.
- j) Take a declaration from the client to ensure that the client does not have any criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.
  - k) Specify the manner in which the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details.
  - l) Clients of special category should be identified and such clients may require higher degree of due diligence and regular update of KYC profile. Such clients include the clients as explained above in the guidelines at point 8.

**CLIENT IDENTIFICATION PROCEDURE:**

- As stated in the 'Know your Client' (KYC) policy, carry out the client identification procedure at different stages i.e. while establishing the broker – client relationship, while carrying out transactions for the client or when there is doubts regarding the veracity or the adequacy of previously obtained client identification data.
- Identify the client using reliable sources including documents / information. Obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship. Obtain all the documents as mentioned in the policy for acceptance of clients.
- The information should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed in compliance with the Guidelines. Each original document should be seen prior to acceptance of a copy.
- Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the senior staff.
- The compliance officer should ensure that all the minimum requirements relating to KYC for brokers as prescribed by SEBI from time to time should be complied with. Continuous familiarity and follow-up should be maintained where inconsistencies in the information provided is noticed. The principles enshrined in the PML Act, 2002 as well as the SEBI Act, 1992 should always be followed so that we are aware of the clients on whose behalf we are dealing.