

EXTRACT OF POLICY OF ANTI MONEY LAUNDERING – STOCK BROKING

MFSL has framed an internal policy to take adequate measures to prevent money laundering and should put in place a frame-work to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002

Implementation of this policy

The Principal officer so appointed for this purpose should be responsible for –

- *Compliance of the provisions of the PMLA and AML guidelines
- *Act as a central reference point and play an active role in identification and assessment of potentially suspicious transactions
- *Ensure that MFSL discharges its legal obligation to report suspicious transactions to the concerned authorities,

The main aspect of this policy is the Customer Due Diligence Process which means:

1. Obtaining sufficient information about the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted.
2. Verify the customer's identity using reliable, independent source document, data or information
3. Conduct on-going due diligence and scrutiny of the account/client to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile.

The customer Due Diligence Process includes three specific parameters:

1. Policy of Acceptance of Clients
2. Client Identification Procedure
3. Suspicious Transactions Identification and Reporting

1. CUSTOMERS ACCFEPTANCE POLICY

Client should be met in person:

The client should visit the office or branch or the official of MFSL should visit the client at his/her residence/office address to get the necessary documents filled in and signed. It should be ensured that the new client is introduced by an existing client

Clients are accepted after applying appropriate KYC procedures:

Complete information from the client should be obtained; It should be ensured that the initial forms taken by the client are filled in completely. All photocopies submitted by the client should be checked against original documents without any exception. KYC guidelines should be followed strictly and all supporting documents as specified by SEBI should be obtained and verified.

Clients with identity matching persons known to have criminal background should not be accepted

It should be checked whether the client's identity matches with any person having known criminal background or is in not banned organization in any other manner, whether in terms of criminal or civil proceedings by any enforcement/ regulatory agency worldwide.

An updated list of individuals and entities which are subject to various sanction measures should be accessed at its website at <http://www.un.org/sc/committees/1267/consolist.shtml> and the accounts should not be opened in the name of anyone whose name appears in said list.

Accepting clients of special category:

Special care should be taken while accepting clients belong to special category like

- (i) Non-resident clientsw (NRI)
- (ii) High net-worth clients(HNI)
- (iii) Trust, Charities, Non-Government Organisations (NGO) amd Organisations receiving donation
- (iv) Companies having closed family share holding or beneficial ownership
- (v) Politically Exposed Persons (PEP), PEP are individuals who are or have been entrusted with prominent public functions in a foreign country. Eg: Heads of States or of governments, Senior Politicians, Senior Government/ Judicial/military

officers, Senior executives of state-owned corporations, important political party officials, family members or closed relatives of PEPs.

- (vi) Companies offering foreign exchange offerings
- (vii) Non-face to face clients
- (viii) Clients from countries reputed to be any of the following – Havens /sponsors of international terrorism, offshore financial centres, tax havens, countries where fraud is highly prevalent
- (ix) Clients with dubious reputation as per public information available etc.
- (x) Persons of foreign origin, Companies dealing in foreign currency, shell companies, overseas entities, clients in high risk countries, clients with dubious background, Current/ Former Head of State, Current/ Former senior high profile politician, Companies offering foreign exchanges etc. or clients from high- risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption/fraud level is high (like Nigeria, Burma, etc.).

The records/ documents pertaining to clients belonging to aforesaid category should be scrutinized minutely before accepting them.

Client registration forms which are suspected to be fictitious:

MFSL should ensure that no account is being opened in a fictitious / benami name or on an anonymous basis.

Not to compromise on submission of mandatory information/ documents.

Client's account should be opened only on receipt of mandatory information along with authentic supporting documents as per the regulatory guidelines. The accounts should not be opened when the client refuses to provide information/ documents and the same should be rejected.

2. CUSTOMER IDENTIFICATION PROCEDURE (FOR NEW CLIENTS)

MFSL should have a mechanism in place to establish identity of the client along with firm proof of address to prevent opening of any account which is fictitious/benami/anonymous in nature.

Documents to be obtained as part of customer Identification procedure for new clients:

1. In case of individuals, one of the following documents should be obtained:

PAN Card: PAN Card is mandatory and the genuineness should be checked through IT website and "verified with original" stamp should be put on the copy as proof of verification.

Identity Proof: In case Photo in the PAN card has an old photograph and could not be matched with the features of the client, additional identity proof such as voter's Identity card, Passport, Ration card or any Government/PSU/Bank issued photo Identity card should be taken.

Address Proof: Voter's Identity card, Passport, Bank statement, Ration Card and latest Electricity/ telephone bill in the name of the client should be obtained.

2. In case of corporates, one certified copy of the following documents must be obtained:

Copy of the Registration/ Incorporation certificate
Copy of Memorandum and Articles of the Association
Copy of the PAN Card and CIN (Corporate Identification Number)
Copy of the latest audited Annual Statements of the Corporate client
Latest Income Tax return filed
Board Resolution for appointment of the Authorised Person who will operate the account. In case the Director is the authorized person, the Director Identification Number (DIN) should be obtained.
Proof of address and identity of Authorised Person.

3. In case of partnership firm one certified copy of the following must be obtained:

Registration certificate
Partnership Deed
PAN card of Partners
Authorisation letter for the person authorized to open and operate the account
Proof of identity and address of the authorized person
Annual statement/ returns of the partnership firm

4. In case of a Trust, one certified copy of the following must be obtained:

Registration Certificate

Trust Deed

PAN Card

Authorisation letter for the entity authorized to act on their behalf
PAN Card, Voters ID, Passport etc of person(s) authorized to transact on behalf of the Trust

5. In case of unincorporated association or a body of individuals, one certified copy of the following must be obtained:

Resolution of the managing body of such association or body of individuals

POA in favour of person authorized to transact

PAN Card, Voters ID, Passport, etc of the person(s) authorized to transact

Any document required by MFSL to establish the legal existence of such an association or body of individuals.

6. In case of an NRI account – Repatriable/ non-repatriable, the following documents are required:

Copy of the PIS permission issued by the bank

Copy of the passport

Copy of the PAN card

Proof of overseas address and Indian address

Copy of the bank statement

Copy of the demat statement and client master details

If the account is handled through a mandate holder, copy of the valid POA/mandate

7. In case of an PEP, the following documents are required

PAN Card: PAN Card is mandatory and the genuineness should be checked through IT website and "verified with original" stamp should be put on the copy as proof of verification.

Identity Proof: In case Photo in the PAN card has an old photograph and could not be matched with the features of the client, additional identity proof such as voter's Identity card,

Passport, Ration card or any Government/PSU/Bank issued photo Identity card should be taken.

Address Proof: Voter's Identity card, Passport, Bank statement, Ration Card and latest Electricity/ telephone bill in the name of the client should be obtained.

Additional information from clients, accessing publicly available information to satisfactorily establish the identity of the client and purpose of the intended nature of the relationship

Senior level management approval for establishing business relationships with PEPs

RISK PROFILING OF THE CLIENT:

MFSL should accept the clients based on the risk they likely to pose, The aim of this exercise is to identify the clients who are likely to pose a higher than average risk of money laundering or terrorist financing. For this purpose, MFSL should classify the clients as Low risk, medium risk and high risk clients, By classifying the clients, MFSL should apply higher degree of due diligence. The factors that should be considered for this should be based on client's location, nature of business activity, turnover, nature of transaction, manner of payment, etc.

In order to achieve this objective, all clients including the branches should be classified in the following category

- Category A – Low risk
- Category B – Medium risk
- Category C – High Risk

Category A clients are those who poses nil or low risk. The clients under this category

- Good corporates
- HNI with a respectable social and financial standing
- Clients who make payment on time and take delivery of shares

Category B clients poses medium risks. The clients under this category

Intra- day or speculative clients
Clients who maintain running account with MFSI

Category C clients who poses higher risk. The clients under this category

Clients who have defaulted in the past
Clients who have suspicious background with the level of activity etc
Clients who don not have any financial status etc.
Transactions of NRI/NRE/PEPs and their family members
Foreign clients, especially when the payment is made in foreign currency

The transactions of B and C category clients should be monitored carefully. The risk profile of the client or mandate or POA holder should be ascertained periodically and if there is any change, the same has to be reported to the senior Management.

3. SUSPICIOUS TRANSACTIONS

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

- *Give rise to a reasonable ground of suspicion that it may involve the proceed of crime; or
- *Appear to be made in circumstance of unusual or unjustified complexity; or
- *Appears to have no economic rationale or bona fide purpose

Reasons for suspicious

Client Identification

False identification documents
Identification documents which could not be verified
Clients not appearing to cooperate
Clients in high risk jurisdiction
Accounts opened with names very close to other established business entities
Receipt back of client acknowledgement copy of account opening kit undelivered at the address given by the client

Suspicious background:

Clients having links with criminals or other suspicious background

Multiple accounts:

Large number of accounts having a common parameters such as common partners/ directors/promoters/ address/ email address/ telephone numbers/ introducer/ authorized signatory

Lot of unexplained transfers between such multiple accounts.

Activity in accounts:

Unusual activity compared to past transactions

Client using different accounts alternatively

Activity in dormant accounts

Inconsistent level of activity than expected from declared business income

Circular trading activity

Transactions abandoned or aborted by clients on being asked to give some details or provide documents

Nature of transactions:

Unusual complexity

No economic rationale

Unjustified transactions

Source of funds doubtful

Appear to be the case of insider trading

Purchases made in one account transferred to another account through off market transactions through DP

Transaction which reflect market manipulations

Suspicious off market transactions

Value of transactions:

Irrepective of the amount of investment made by the clients, no minimum threshold or exemption is available for obtaining minimum information/documents from clients as stipulated regarding the verification of the records of the identity of the clients.

Transfer of large sums from overseas for making payments
Client transactions inconsistent with financial standing
Payment pattern by the client is inconsistent
Block deal which is not at market price i.e at a price artificially inflated/ deflated.

Report to be made to Principal Officer

The nature of the transaction
The amount of transaction and the currency involved
The date of transaction
The parties to the transaction
The reasons for suspicion.

The Principal Officer has to furnish the information of the suspicious transactions to Director, FIUIND within 7 working days of establishment of suspicion at the level of Principal Officer

Format

Suspicious Transaction Report in manual format has to be filed in following forms:

Description of Form	Information
Suspicious Transaction Report for an Business Associates	Details of suspicious transactions
Annexure A- Individual Detail Sheet for an Business Associates	Identification details of individual
Annexure B- Legal Person/ Entity Detail Sheet for an Business Associates (Non Individual)	Identification details of legal person /entity
Annexure C- Account Detail Sheet for an Business Associates	Details of account and transactions

REPORTING (DISCLOSURE) OF SUSPICIOUS ACTIVITY:-

The 'Principal Officer' shall report the information relating to suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND)

at the following address as may modified by the SEBI from time to time:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi – 110021

Time limit prescribed for information to FIU -IND:

Rule 8 of the rules notified by notification No.9/2005 (as amended by Notification No.15/2005 and 4/2007) prescribes time limit for furnishing information to the Director, FIU-IND

The time limit for furnishing information about cash transactions and integrally connected cash transactions to Director, FIU-IND is 15th day of the succeeding month.

All cash transactions where forged or counterfeit currency notes or Bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions should be furnished to the Director, FIU-IND not later than seven working days from the date of occurrence of such transactions.

All suspicious transactions have to be furnished to the Director, FIU-IND not later than seven working days on being satisfied that the transactions is suspicious.

No restrictions should be put on operations in the accounts where an STR has been made. All directors, officers and employees (permanent and temporary) are prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND.

DESIGNATION OF AN OFFICER FOR REPORTING OF SUSPICIOUS TRANSACTIONS:-

The Company has designated Aa Designated Director to ensure overall compliance with the obligations imposed under chapter IV of the PMLA Act and the Rules. The Designated Director will ensure filing of necessary reports with the Financial Intelligence Unit (FIU –IND). The company has appointed a Principal Officer. The Principal officer

appointed 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 and shall have access to and be able to the Board of Directors. Names, designation and addresses (including email addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-FIU. As a matter of principle, it is advisable that the 'Principal Officer' is of a sufficiently senior position and is able to discharge the functions with independence and authority.

EMPLOYEES' HIRING/EMPLOYEE'S TRAINING/ INVESTOR EDUCATION:-

Hiring of Employees

There should be adequate screening procedures in place to ensure high standards when hiring employees. Key positions within organization structure should be identified with regards 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.

Employees' Training

There must be an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements should have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new customers. It is crucial that all those concerned 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.

14.3 Investors Education

Implementation of AML/CFT measures requires us to demand certain information from investors which may be of personal nature or which have hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the customer with regard to the motive and purpose of collecting such information. There is, therefore, a need for us to sensitize customers about these requirements as the ones emanating from AML and CFT

framework. We would prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the AML/CFT programme.

Review Policy:

We are reviewing the PMLA policy as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change on account of business needs and Risk Management policy.

The policy reviewed by Principal Officer & designated Director and placed the changes in policy before the Board at the meeting first held after such changes are introduced and the same is communicated to all departmental heads and associate persons via email and a copy of the reviewed policy is also made available on our website.

Miscellaneous

All employees shall ensure compliance with this policy. It shall be the duty of every Employee/ Business Associate of the Company to cooperate with and provide timely disclosure and information to any inspecting authority (either internal or external) including any relevance law enforcement authorities with regard to implementation of this policy. In addition to this policy all directives issued by SEBI/ Exchanges/ NSDL / CDSL or any other regulatory authority shall be strictly adhered to.