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## **EXTRACTS FROM POLICY**

**ON**

**ANTI MONEY LAUNDERING ON STOCK BROKING**

**FOR**

**CREATION OF CLIENT AWARENESS**

**Extract of Policy on Anti Money Laundering – Stock Broking**



## **1. Background**

1.1. Pursuant to the recommendations made by the Financial Action Task Force on anti-money laundering standards, SEBI had issued the Guidelines on Anti Money Laundering Standards vide their notification No.ISD/CIR/RR/AML/1/06 dated 18<sup>th</sup> January 2006 and vide letter No.ISD/CIR/RR/AML/2/06 dated 20<sup>th</sup> March 2006 had issued the obligations of the intermediaries registered under Section 12 of SEBI Act, 1992. As per these SEBI guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

## **2. What is Money Laundering?**

2.1 Money Laundering can be defined as engaging in financial transactions that involve income derived from Criminal activity, transactions designed to conceal the true origin of criminally derived proceeds and appears to have been received through legitimate sources/origins.

2.2 This is done in three phases – Placement Phase, Layering Phase & Integration Phase.

## **3. Prevention of Money Laundering Act, 2002**

3.1. Prevention of Money Laundering Act, 2002 (PMLA 2002) forms the core of the legal framework put in place by India to combat money laundering. PMLA 2002 and the Rules notified there under came into force with effect from July 1, 2005.

3.2. The PMLA 2002 and Rules notified there under impose an obligation on intermediaries (including stock brokers and sub-brokers) to verify identity of clients, maintain records and furnish information to the Financial Intelligence Unit (FIU) - INDIA

## **4. Financial Intelligence Unit (FIU) – INDIA**

4.1. The Government of India set up Financial Intelligence Unit-India (FIU-IND) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

4.2. FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.



## **5. Policy of Span Caplease Pvt. Ltd.**

5.1. M/s. Span Caplease Pvt. Ltd. has resolved that it would, as an internal policy, take adequate measures to prevent money laundering and shall put in place a frame-work to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002

## **6. Implementation of this Policy**

6.1. **Mr Kaushal B. Shah** Director of the company has been designated as Principle Officer & will 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 & assessment of potentially suspicious transactions
- ☐ Ensure that SCPL discharges its legal obligation to report suspicious transactions to the concerned authorities.

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

- ☐ 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.
- ☐ Verify the customer's identity using reliable, independent source document, data or information.
- ☐ 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.

6.3. The Customer Due Diligence Process includes three specific parameters :

- ☐ Policy for Acceptance of Clients
- ☐ Client Identification Procedure
- ☐ Suspicious Transactions identification & reporting



## 7. Customer Acceptance Policy

### 7.1.

- ☐ ***Each client should be met in person:*** Accept client whom we are able to meet personally. Either the client should visit the office/branch or concerned official may visit the client at his residence / office address to get the necessary documents filled in and signed. Preferably accept clients who live within the jurisdiction of the branch. As far as possible, ensure that the new client is introduced by an existing client.
- ☐ ***Accepts client on whom we are able to apply appropriate KYC procedures:*** Obtain complete information from the client. It should be ensured that the initial forms taken by the client are filled in completely. All photocopies submitted by the client are checked against original documents without any exception. Ensure that the 'Know Your Client' guidelines are followed without any exception. All supporting documents as specified by Securities and Exchange Board of India (SEBI) and Exchanges are obtained and verified
- ☐ ***Do not accept clients with identity matching persons known to have criminal background:*** Check whether the client's identity matches 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/regulatory agency worldwide
- ☐ ***Be careful while accepting Clients of Special category:*** We should be careful while accepting clients of special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed Persons (PEP), persons of foreign origin, companies having closed share holding/ownership, companies dealing in foreign currency, shell companies, overseas entities, clients in high risk countries, non face to face clients, clients with dubious background. Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange, 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). Scrutinize minutely the records / documents pertaining to clients belonging to aforesaid category
- ☐ ***Do not accept client registration forms which are suspected to be fictitious:*** Ensure that no account is being opened in a fictitious / benami name or on an anonymous basis.
- ☐ ***Do not 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. Do not open the accounts where the client refuses to provide information/documents and we should have sufficient reason to reject the client towards this reluctance.



## 7.2. Customer Identification Procedure (FOR NEW CLIENTS)

**Objective:** To 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.

### 7.2.1. Documents which can be relied upon:

- ☐ PAN Card: PAN card is mandatory and is most reliable document as only one card is issued to an individual and we can independently check its genuineness through IT website.
- ☐ IDENTITY Proof: PAN Card itself can serve as proof of identity. However, in case PAN card carries an old photograph of the holder, which does not match current facial features of the client, we should take other identity proof in form of Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card.
- ☐ ADDRESS Proof: For valid address proof we can rely on Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client.
- ☐ Income Proof: Periodically to obtain proof of Income as per SEBI Guidelines.

### 7.2.2. Documents to be obtained as part of customer identification procedure for new clients:

#### a. In case of individuals, one copy of the following documents have to be obtained :

- ☐ As PAN is mandatory, verify its genuineness with IT website and cross verify the PAN card copy with the original. [ Please put "verified with original" stamp as proof of verification ]
- ☐ Other proofs for identity are Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card or any other document prescribed by the regulatory authorities.
- ☐ Address proof in the form of Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client or any other document prescribed by the regulatory authorities.

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

- ☐ Copy of the Registration/Incorporation Certificate
- ☐ Copy of the Memorandum & Articles of the Association
- ☐ Copy of the PAN card and the Director Index No. (DIN)
- ☐ Copy of the latest audited Annual Statements of the corporate client
- ☐ Latest Net worth Certificate
- ☐ Latest Income Tax return filed.
- ☐ Board Resolution for appointment of the Authorized Person who will operate the account.
- ☐ Proof of address and identity of Authorized Person



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

- ☐ Registration certificate
- ☐ Partnership Deed
- ☐ PAN card of partners
- ☐ Authorization 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

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

- ☐ Registration certificate
- ☐ Trust Deed
- ☐ PAN card
- ☐ Authorization letter for the entity authorized to act on their behalf
- ☐ Officially valid documents like PAN card, voters ID, passport, etc of person(s) authorized to transact on behalf of the Trust.

e. *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
- ☐ Officially valid documents like PAN card, voters ID, passport, etc of the person(s) authorized to transact
- ☐ Any document required by Span to establish the legal existence of such an association or body of individuals.

f. *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 PAN card
- ☐ Proof of overseas address and Indian address
- ☐ Copy of the bank statement
- ☐ Copy of the demat statement
- ☐ If the account is handled through a mandate holder, copy of the valid PoA/mandate



## 8. Risk Profiling of the Client

- 8.1. We should accept the clients based on the risk they are likely to pose. The aim is to identify clients who are likely to pose a higher than average risk of money laundering or terrorist financing. For this purpose, we need to classify the clients as Low risk, medium risk and high risk clients. By classifying the clients, we will be in a better position to apply appropriate customer due diligence process. That is, for high risk client we have to apply higher degree of due diligence. The factors of risk perception depend on client's location, nature of business activity, turnover, nature of transaction, manner of payment etc.
- 8.2. In order to achieve this objective, all clients of the branch should be classified in the following category :
- ☐ Category A – Low Risk
  - ☐ Category B – Medium Risk
  - ☐ Category C – High risk
- 8.2.1. Category A clients are those pose low or nil risk. They are good corporates/HNIs who have a respectable social and financial standing. These are the clients who make payment on time and take delivery of shares.
- 8.2.2. Category B clients are those who are intra-day clients or speculative clients. These are the clients who maintain running account with SCPL.
- 8.2.3. Category C clients are those who have defaulted in the past, have suspicious background, do not have any financial status, etc.
- 8.3. We have to be careful while monitoring the transactions of B and C category clients.
- 8.4. Apart from this we need to exercise extra caution while monitoring the transactions of NRI/NRE/PIO and foreign clients, especially when the payment is being made in foreign currency.
- 8.5. Any change in the risk profile of the client/mandate holder, has to be ascertained by the concerned branch officials, and reported to the Business Head immediately.

## 9. Suspicious Transactions

All are requested to analyze and furnish details of suspicious transactions, whether or not made in cash. It should be ensured that there is no undue delay in analysis and arriving at a conclusion.

- 9.1. What is a Suspicious Transaction: Suspicious transaction means a transaction whether or not made in cash, which to a person acting in good faith -
- ☐ Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
  - ☐ Appears to be made in circumstance of unusual or unjustified complexity; or
  - ☐ Appears to have no economic rationale or bona fide purpose



*Reasons for Suspicious:*

- ☐ Identity of client
  - False identification documents
  - Identification documents which could not be verified within reasonable time
  - Non-face to face client
  - Clients in high-risk jurisdiction
  - Doubt over the real beneficiary of the account
  - Accounts opened with names very close to other established business entities
  - Receipt back of well -come kit undelivered at the address given by the client
- ☐ Suspicious Background
  - Suspicious background or links with criminals
- ☐ Multiple Accounts
  - Large number of accounts having a common parameters such as common partners/ directors / promoters / address/ email address / telephone numbers introducer or authorized signatory
  - Unexplained transfers between such multiple accounts.
- ☐ Activity In Accounts
  - Unusual activity compared to past transactions
  - Use of different accounts by client alternatively
  - Sudden activity in dormant accounts
  - Activity inconsistent with what would be expected from declared business s
  - Account used for circular trading
- ☐ Nature Of Transactions
  - Unusual or unjustified complexity
  - No economic rationale or bonafied purpose
  - Source of funds are doubtful
  - Appears to be case of insider trading
  - Purchases made on own account transferred to a third party through an off market transactions through DP account
  - Transactions reflect likely market manipulations
  - Suspicious off market transactions





☐ Value Of Transactions

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

9.2. What to Report

- ☐ The nature of the transactions
- ☐ The amount of the transaction and the currency in which it was denominated
- ☐ The date on which the transaction was conducted: and
- ☐ The parties to the transaction.
- ☐ The reason of suspicion.

## 10. Designated Principal Officer

In case any further information /clarification is required in this regard, the 'Principal Officer' may be contacted.

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