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Policies created by: Anand Jain
Policies reviewed by: Compliance Head
Policies reviewed on: 01.01.2016
Policies approved by: Board of Directors
Policies approved on: 01.01.2016

POLICIES AND PROCEDURES FOR CLIENT DEALINGS – ALL EXCHANGES - MANDATORY
(as required by SEBI circular MIRSD/ SE /Cir-19/2009 dated December 3, 2009

Policy 1. refusal of orders for penny stocks

A penny stock can be typified as one which has one or more of the given below characteristics:

- Stock that trades at a relatively low price and /or market capitalization
- Highly speculative and risky because of lack of liquidity
- Large bid-ask spreads
- Showing sporadic volume pattern in tandem with bulk trades
- Association with errant promoters and/or classified under Z or T group by exchanges

Our RMS reserves the "right to refusal" to trade in such stocks and consequently all losses pertaining to it would be borne by the client. Such a decision would emanate after considering above-mentioned points. The client should also be ready to pay 100% margin pertaining to the scrip, if need be.

Policy 2. setting up client's exposure limit

Our RMS refers the following points before giving exposure to our clients, which in turn can vary from time to time in view of the then prevailing circumstances:

- Client's net worth
- Collateral or deposits taken from the client
- Existing open positions of client and the various margin obligations
- Broker's risk perception of the client
- Prevailing market volatility
- The benefit of 'credit for sale of shares' is to be considered while evaluating the exposure of a client.
- In case of F&O trading, collateral received after the trading day in 'client's margin account' will not be considered for margin and exposure calculation.
- Scrip wise exposure can vary depending upon the group to which the scrip belongs. A client is liable to get less exposure for scrip under 'Z' & 'T' groups, as the broker has to keep in mind the total turnover of the scrip, liquidity during the day, per day limits for a particular Group (e.g. T, Z groups) set by Exchanges or any such reasons after referring the daily notices of Exchanges & SEBI.
- Any other relevant factor.

The client has to agree to exposure/margin variation, reduction, imposition and restrictions that can affect his ability to execute the orders solely as per his wish. Further the client has to agree that the losses if any on account of such refusal or due to delay caused by periodic reviews or interventions shall be borne exclusively by the client alone.

Policy 3. applicable brokerage rate

- Brokerage rates will be charged within the limits prescribed by SEBI/Exchange- i.e. Not more than 2.5% on market rate
- At the time of opening of client's account the brokerage rates will be assigned in consultation with the client/sub-broker. Any change intended by either broker or client will be done after mutual discussion thereof. The client should sign on the tariff sheet and should convey any deviation within seven days of signing the sheet.

- For option contracts brokerage will be charged on the premium at which the option contract was bought or sold and not on the strike price of the option contract.
- The management also reserves the right to decide upon brokerage rates to any client as per their comfort level within the permissible range.

Policy 4. imposition of penalty/delayed payment charges by either party, specifying the rate and the period not resulting in funding by the broker in contravention of the applicable laws

- Where the Broker has to bear or pay any fines/penalties/punishment imposed by any of the authorities like SEBI/RBI/Exchanges/Banks etc in connection with/as a consequence of/in relation to any of the orders /trades/deals/actions/non-compliance of the client, then the same will be debited to the client.
- All penalties due to client's negligence, what-so-ever it may be, pertaining to their trading account shall be borne by Client

Policy 5. the right to sell clients' securities or close clients' positions, without giving notice to the client, on account of non-payment of client's dues (Limited to the extent of settlement/margin obligation)

- Without prejudice to the stock broker other rights (including the right to refer the matter to arbitration), the stock broker shall be entitled to liquidate /close out all or any of the client's position without giving notice to the client for nonpayment of margins or other amounts including the pay-in obligation, outstanding debts etc and adjust the proceeds of such liquidation/close out, if any against the client's liabilities/obligations.
- The client shall ensure timely availability of fund/securities in the form and manner at designated time and in designated bank and depository account(s), for meeting his/her/its pay-in obligation of fund and securities. All losses on account of non-compliance of exchange obligation shall be borne by the client. Any available security/collateral would be subject to haircuts/MTM as the stockbroker may deem fit in his absolute discretion.
- The stockbrokers has the right but not the obligation, to cancel all pending orders and to sell /close/liquidate all open positions/securities/shares at a predefined square off time or when MTM percentage reaches or crosses stipulated margin percentage, whichever is earlier. The stockbroker will have the sole discretion to decide referred stipulated margin percentage depending upon the market condition. In the event of such square-off, the client shall bear all the losses based on actual executed prices, the client shall also be solely liable for all and any penalties and charges levied by the exchange.
- On the explicit directions of Exchanges/ SEBI or any government authority, the broker can freeze or resort to squaring off the position of client. In such cases all losses shall be borne by the client.
- Normally, a client who has outstanding debit balance for more than three months/six months(as will be decided by management) can be asked to make good the expenses of all kind, including TOD/OD interest charges that the broker had to bear due to client's inability to clear them in time.

Policy 6. shortages in obligations arising out of internal netting of trades

- Stock broker shall not be entitled to deliver any securities or pay any money to the client until and unless the same has been received from the Exchange/Clearing House/ Clearing Corporation or any other authorized entity, provided the client has fulfilled his obligations first.
- Internal shortage of securities due for some corporate action or cum-benefit securities that cannot be auctioned/ or the pay-out of cum-benefit securities will take place after the book closure or record date, then in such a situation it would compulsorily attract a close out as per exchange policy.
- BSE- In case of BSE we always opt for the procedure of "internal auction" available with the exchange. If due to any reason the same cannot be done then the broker will opt to close out the

position considering the higher of the following rate- a) Trading day standard rate or b) highest auction rate corresponding to the requisite settlement day.

- NSE- The broker will purchase shares from the market on the day of Auction and debit or credit the clients accordingly. In case the broker fails to buy the same due to any reason whatsoever, then the Exchange closing rate for the scrip as declared by exchange from time to time would be considered to square off the positions of clients.

Policy 7. conditions under which a client may not be allowed to take further position or the broker may close the existing position of a client

The above condition applies in the following cases:

- When the gross exposure/collateral set for the client gets exhausted.
- The existing position of the client is also liable to be squared up when the client fails to provide extra margin or fails to fulfill his obligations even upon being intimated.
- Due to non-receipt or non-fulfillment of money and/or delivery pay-in & payout obligation by the client incase of cash segment.
- Due to non-receipt or non-fulfillment of money pay-in obligation by the client as required by exchanges in F&O segment.
- In extraordinary circumstances whence the Broker is advised by the Exchange to reduce exposure to facilitate smooth working of the Exchange.
- In view of the high volatility of market

Policy 8. temporarily suspending or closing a client's account at the client's request

- A client's account can be temporarily suspended if the client gives in writing to do so with proper reason. It can be re-activated on receipt of written instruction from the client. However client would be allowed to settle his ledger account during suspended period.
- The management also reserves the right to temporarily close a client's account till he fulfills /complies with his due obligations.
- Closure of client's account- A client's account can be closed if a written request is received for the same, provided he has settled his account across all segments in terms of money and share delivery.

Policy 9. deregistering a client

Notwithstanding anything contrary stated in the agreement, the stock broker shall be entitled to terminate the agreement in any of the following circumstances:

1) Incase of death/lunacy or any other disability of the client
2) Incase of breach of any term, condition or covenant of this agreement
3) Incase the client has made material misrepresentation in the facts disclosed in his KYC
4) If there is commencement of any legal proceedings against the client under any law in force.
5) If the action of the client are prima-facie illegal/improper or one that points to price manipulation or that disturbs the normal functioning capital market, whether alone or in conjunction with others.
6) In case the client defaults in fulfillment of his exchange related obligations
7) Incase of dissolution of partnership firm and the partnership firm or any of its partner being the client of the broker.
8) If the client has voluntarily or compulsorily become the subject of proceedings under any bankruptcy or insolvency law or being a company, goes into liquidation or has a receiver appointed in respect of its assets or refers itself to BIFR or under any other law providing protection as a relief undertaking.
9) If any covenant or warranty of the client is incorrect or untrue in any material respect.
10) If there is reasonable apprehension that the client would be unable to pay its debts or the client has admitted its inability to pay its debt as and when they become payable.
11) If a receiver, administrator or liquidator has been appointed or allowed to be appointed for all or any

part of the undertaking of the client.
12) If there is reasonable apprehension about the clients' solvency or ability to fulfill his obligations.
All losses pertaining to this effect shall be borne by the client.

Policy 10. policy regarding treatment of inactive/dormant client

Any client who does trade during a financial year is shall be considered as an "in-active client "or dormant client. The management will typify a client as "inactive" after considering the following aspects:

1. Whether there exists any trade in his ledger account whose obligation has been fulfilled through the exchange trading platform?
2. Whether the client is active in any other segment?
3. Whether the client has any debits or credits lying in any of his ledger account, in any of the segments?
4. Whether the client is trying to settle his dues, though he is an inactive trader? ie. Only banking transactions appear in his ledger account?
5. Whether the client is inactive due to change of his residential status or change of location to a remote area or foreign country and has intimated his wish to remain dormant temporarily?
6. Client declared inactive by law: Such a client will be moved to the "inactive" category if required by law.

After considering the above points, we would consider whether the client trading and/or demat account needs to be closed permanently or not. Having typified the client as 'inactive', we would proceed to intimate him about the same and tag the client as 'inactive' in BSE/NSE online database.

Policy 11. policy on cash/bank contra A/c

To facilitate pay-in/ pay-out obligations among various segments namely 'BSE , MCX-SX, NSE & NSE F&O ' , we move funds from one segment to another in the form of contra entry, subject to the following points:

1. Fund to be moved when a client has credit lying in one segment and pay-out/credit in another segment.
2. To bring about agility in the system and avoid delays
3. To avoid the inconvenience of taking cheque in one segment and delivering in another.
4. And, above all to ensure smooth process of fulfilment of market obligations.

Policy 12. Client code modification Policy

We intend to adhere to the new SEBI directive on 'UCC changes and its implications'. The following steps taken in that regard are:

1. All modifications shall be done by Head office only through permissible Exchange sites dedicated for this purpose. The dealer or branch will have to send their request through email for their unforeseen genuine errors during trading session.
2. No back-office UCC modifications will be permitted.
3.'ERROR' code created in UCC site of BSE,NSE & MCX-SX after incorporating OWN/PRO details including PAN number shall be used for modifications. Modifications through ERROR UCC code can be done provided ERROR ucc CODE is squared up during the same day. However the loss difference would be borne by the wrongdoer.
4. Institutional to Institutional trades can be modified without attracting penalty.
5. Genuine errors for above purpose can be communication error, punching error, typing error (similar client code /name) and code change between relatives (Relative as defined under sec. 6 the Companies Act, 1956)

Code Modification Summary

From	To	Allowed/Not Allowed	Penalty/No penalty

Institution	Error	Allowed	No penalty
Non Institution	Error	Allowed	No penalty
Institution	Institution	Allowed	No penalty
Client	Client	Allowed (in certain cases only)*	Penalty
* As per BSE/NSE/MCX-SX notice for permitted changes * In BSE BOLT, order type change is different form order code change			
Penalty of 1% or 2% of trade value depending on quantum of changes for the day will be levied by Exchanges			

Policy 13. Investor grievances policy

All investors are free to communicate their grievances through our dedicated investor grievances email id: grievances@ kmjpl.com or through our investor grievances register kept in all our offices at convenient accessible place. Investors will be assured prompt reply and resolution to their grievances. The process for prompt redressal would entail the following steps:

- Nature of grievance- whether monetary, documentary requirement or otherwise
- If monetary- then the cause and the veracity needs to be established. If the veracity is established by our back office then the client can expect quick dissipation. If veracity is denied by our back office, then the client would be duly informed with facts and figures.
- If non-receipt of a document- then the back office manager would ensure that the documents are despatched immediately or a duplicate copy is forwarded to the client.
- Other grievances- solution to be decided only after collating the details.
- If the client remains dissatisfied with managerial decision then he can contact the investor grievance cell of respective exchange. The contact details are displayed at all offices as well as in KYC form.

14.Policy for unauthentic news in circulation

Our company discourages circulation of unauthentic news and hearsays through emails, sms or printed material. All research news is handled only by our sole research department active in our Mumbai head office. Any news not bearing our research department approval shall have no bearing and may be considered false. All the printed material emanating from our research department, in Mumbai Head office will always be based on facts and /or permissible scientific assumptions.

As per the new SEBI guidelines, we will abide by the Research Analyst regulations as laid down by the authorities.

15.Policy for trading in illiquid stocks

An illiquid stock can be typified as one which has almost all the given below characteristics:

- Highly speculative and risky because of lack of liquidity
- Large bid-ask spreads
- Showing sporadic volume patterns
- Periodically classified by Exchanges in their list of –'illiquid securities', intimated through their daily notices.

Our RMS reserves the "right to refusal" to trade in such stocks and consequently all losses pertaining to it would be borne by the client. The client should also be ready to pay 100% margin pertaining to the scrip, if need be. Such stocks would not be considered for client's exposure or margin.

16. Policy for Insider Trading

The Securities & Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, was

amended on 22nd February 2002 (hereinafter referred to as “Regulations”) in terms of which a Stock Broker is required, inter alia, to frame a Code of Conduct for Prevention of Insider Trading by Employees of a Stock Broker, including its Directors

In line with the said Regulations, the following Code of Conduct (hereinafter referred to as “the Code”) has been adopted by K.M.Jain Stock Brokers Pvt Ltd (hereinafter referred to as “KMJPL”), Member of the Stock Exchange, Mumbai & National Stock Exchange Ltd.

Director

KMJPL has an appointed Compliance Officer who reports to the Managing Directors/other directors.

The Compliance Officer shall be responsible for setting Policies and Procedures and monitoring the Rules & Regulations for the preservation of "Price Sensitive Information", pre-clearing of all Designated Employees and their Dependents Trades (directly or through respective Department heads as decided by the KMJPL). Monitoring of Trades and the Implementation of the Code of Conduct under the overall Supervision of the Directors

The Compliance Officer shall maintain a record of all KMJPL Employees and any Changes done in the Employees List form time to time & help to understand any Clarifications regarding SEBI (Prohibition of Insider Trading) Regulations, 1992 and KMJPL’s Code.

Prevention of “Price Sensitive Information”

Employees / Directors shall maintain the Confidentiality of all Price Sensitive Information & must not pass such Information directly or indirectly by way of making a Recommendation for the Purchase or Sale of Securities

Price Sensitive Information is to be handled on a "Need to Know" basis, i.e. Price Sensitive Information should be disclosed only to those within KMJPL, who need the Information to discharge their Duty and whose Possession of such Information will not give rise to a Conflict of Interest or Appearance of Misuse of the Information.

All Files of KMJPL, containing Confidential Information shall be kept Secure & all computer files must have Adequate Security of Login and Password, etc

To prevent the Misuse of Confidential Information, KMJPL separates those Areas which routinely have access to Confidential Information, considered "Inside Areas" from those Areas which deal with Sale / Marketing / Investment Advise or other Departments providing Support Services, considered "Public Areas".

The Employees in Inside Area may be physically segregated from Employees in Public Area.

The Employees in the Inside Area shall not communicate any Price Sensitive Information to anyone in Public Area.

Prevention of Misuse of Price Sensitive Information

Employees / Directors shall not use Price Sensitive Information to Buy or Sell Securities of any sort, whether for their Own Account, their Relative’s Account, KMJPL’s Account or a Client's Account. The Trading Restrictions shall apply for Trading in Securities.

All Directors / Employees of KMJPL, who intend to deal in the Securities of listed Companies where KMJPL has some assignments shall pre-clear the Transactions as per the pre-dealing Procedure as described here below.

An Application may be made in such form as specify by KMJPL in this regard, to the Compliance Officer indicating the Name and Estimated Number of Securities that the Employees / Director intends to deal in with details of Demat DP with which he has a Security Account, the Securities in such Depository Mode and any other details as may be prescribed by KMJPL in his rule & regulations.

An Undertaking shall be executed in favor of KMJPL by such Employees / Directors incorporating, the

following Clauses, as may be applicable
That the Employees / Director do not receive any "Price Sensitive Information" at the time of signing the Undertaking
That in case the employees / director / partner receive "Price Sensitive Information" after the signing of the undertaking but before the execution of the transaction he/she shall inform the Compliance officer of the change in his position and that he/she would completely refrain from dealing in the securities of listed companies.
That he / she has not contravened the Code of Conduct for prevention of Insider Trading as specified by KMJPL.
That he / she has made a Full and True Disclosure in the matter

Restricted / Grey List
In order to monitor above Procedures and Trading in Client Securities based on Inside Information, KMJPL shall restrict Trading in certain Securities and designate such List as Restricted / Grey List.
Security of a Listed Company shall be put on the Restricted / Grey List if KMJPL is handling any Assignment for the Listed Company or preparing Appraisal Report.
Any Security, which is being purchased or sold or is being considered for Purchase or Sale by KMJPL on behalf of its Clients shall be put on the Restricted / Grey List
As the Restricted List itself is a Highly Confidential Information it shall not be communicated to anyone outside KMJPL. The Restricted List shall be maintained & kept by Compliance Officer

Penalty for Contravention of the Code
Any Employee / Director who trades in Securities or communicates any Information or counsels any Person Trading in Securities, will be treated as Contravention of the Code & conduct, may be penalized and appropriate Action may be taken by KMJPL
Employees / Directors of KMJPL, who violate the Code, may also be subject to Disciplinary Action by the Company.
The Action by KMJPL shall not preclude SEBI from taking any Action in case of Violation of SEBI (Prohibition of Insider Trading) Regulations, 1992

Information to SEBI in case of Violation of SEBI (Prohibition of Insider Trading) Regulations
In case of any violation observed by KMJPL / its Compliance Officer that there has been a Violation of these Regulations, KMJPL shall inform the SEBI

17.Policy for monitoring and reporting alerts as approved by the board- Surveillance Policy:
Trading members are directed to have proper mechanisms and to ensure that proper checks and balances are in control.The Company shall implement the following policy:-

1) Transactional Alerts provided by the exchange:
In order to facilitate effective surveillance mechanisms, the Firm would download the below mentioned alerts based on the trading activities on the exchanges.

Sr. No.	Transactional Alerts	Segment
1	Significantly increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Client(s), deal in common scrips	Cash
4	Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
5	Client(s)/Group of Client(s) dealing in scrip in	Cash

	minimum lot size	
6	Client / Group of Client(s) Concentration in a scrip	Cash
7	Circular Trading	Cash
8	Pump and Dump	Cash
9	Wash Sales	Cash
10	Reversal of Trades	Cash
11	Front Running	Cash
12	High Turnover Concentration	Cash
13	Order Book Spoofing i.e. large orders away from market	Cash

The Firm may formulate its own alerts in addition to above mentioned type of alerts.

2) Clients Information:

The Company will carry out the Due Diligence of its client(s) on a yearly basis. Further, we will ensure that key KYC parameters are updated on a yearly basis and latest information of the client is updated in Unique Client Code (UCC) database of the Exchange. Based on this information the Company shall establish groups / association amongst clients to identify multiple accounts / common account / group of clients.

3) Analysis:

In order to analyze the trading activity of the Client(s) / Group of Client(s) or scrips identified on the basis of above alerts, we will carry out the following procedure:

a.To seek explanation from such identified Client(s) / Group of Client(s) for entering into such transactions.

b.To Seek documentary evidence such as bank statement / demat transaction statement or any other documents listed below:

i)In case of funds, Bank statements of the Client(s) / Group of Client(s) from which funds pay-in have been met, to be sought. In case of securities, demat account statements of the Client(s) / Group of Client(s) from which securities pay-in has been met, to be sought.

ii)The period for such statements may be at least 15 days from the date of transactions to verify whether the funds / securities for the settlement of such trades actually belongs to the client for whom the trades were transacted.

c.The Company shall review the alerts based upon:

- Type of the alerts downloaded by the exchange
- Financial details of the clients
- Past Trading pattern of the clients/ client group
- Bank /Demat transaction details
- Other connected clients in UCC (common email/mobile number/address, other linkages, etc)
- Other publicly available information.

d.After analyzing the documentary evidences, including the bank / demat statement, the Firm will record its observations for such identified transactions or Client(s) / Group of Client(s). In case adverse observations are recorded, the Compliance Officer shall report all such instances to the Exchange within 45 days of the alert generation. The Firm may seek extension of the time period from the Exchange, wherever required.

4) Monitoring and reporting:

For effective monitoring, the Company;

- Within 30 days of alert generation shall dispose off the alert, and any delay in disposition, reason for the same shall be documented.

- In case of any Suspicious or any Manipulative activity is identified, the same will be mentioned in the Register to be maintained for the purpose and will be reported to the Stock Exchanges within 45 days of the alert generation.
    a. The Company shall prepare quarterly MIS and shall put to the Directors on the number of alerts pending at the beginning of the quarter, generated during the quarter, disposed off during the quarter and pending at the end of the quarter. Reasons for pendency shall be discussed and appropriate action shall be taken. Also, the Board shall be apprised of any exception noticed during the disposition of alerts. The surveillance process shall be conducted under overall supervision of its Compliance Officer. Compliance Officer would be responsible for all surveillance activities carried out by the Company and for the record maintenance and reporting of such activities.
    b. Internal auditor of the Company shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report.

These policies have been adopted by the trading member as on **1.04.2010** and may have been revised/reviewed over time. These policies may be reviewed as and when there will be changes introduced by any statutory authority or as and when it will be found necessary to change the policy due to business needs.

POLICY # 18 RMS

Policy created by : Anand Jain
Policy reviewed by : Compliance Head
Policy reviewed on : 30th April 2015
Policy approved by : Board of Directors
Policy approved on : 30th April 2015

Risk Management Policy

Risk management is the process by which risks are identified, evaluated, controlled and prioritized. At RBG we ensure the financial integrity of trades put through on the Exchanges Platform by adopting a comprehensive, unbiased and professional approach to Risk Management. RBG does not have in its team, any person who has any vested interest in commodity trading. The Value at risk (VaR) based margining and limits on position levels are transparent and applied uniformly across market participant.Trading & exposure limits are generally based on the quantum of funds of the client maintained as margin.

Major Functions of RMS

- Allocating funds to the clients' trading account and enabling the clients' to do trades.
- Monitoring of orders & trades by clients. Checking order rejections and increasing exposure, if required.
- Monitoring the MTM profit/loss incurred out of trades, comparing the Actual Margin requirements of clients and the Total Margin available for clients on a one to one basis and initiating remedial actions, if required.
- Decision taking with regard to squaring off positions on account of MTM loss or Margin shortfalls or any other reasons that may come across.

Broadly our risk management policy would cover the following perceived risks to our organization:

1. **Business risks**
   - From clients
   - Due to errors and omissions while trading
   - Technical risks
2. **Non-compliance risks**
   - SEBI/Exchanges compliance
   - PMLA compliance
3. **Unforeseen risks:**
   - due to natural calamity
   - due to manmade disasters including terror attacks

Handling of Business risks

The following process will be followed for overall business risk management:

- Identifying risk profile of clients- KYC document should be referred to check risk category of the client.

- Deciding how much credit should be given to each client- As per the risk category assigned to each client, limits will be set for each client. For cash segment, low and medium risk clients are permitted to buy not more than one lac worth of deliverable securities up-front. Full cheque payment would be expected after bill processing for the day. For, high net worth clients, exposure can be given on case to case basis , but settlement of account would be encouraged once bills are posted as we do not indulge in financing of any sort.
- For F&O trading strict rules as per SEBI/Exchange guidelines would be followed.
- In case of default by clients, then we would first resort to liquidation of collateral held by us on behalf of client, but only to the extent of debit lying in the ledger account. If the collateral or upfront margin falls short of debit balances lying in the account, then the client will be sent notice by email and/or registered post. If the client fails to fulfil his obligations, then we would follow legal process of recovery through exchange arbitration process and further through suit filing in the court of law.
- For errors & omission while trading- Any error by head office dealers would be borne by head office, but the branch office errors would be borne by respective branch office or the concerned sub-broker or remisier or authorized person. If the error is due to a mistake of client, then the client will have to bear the loss.
- The broker would ensure alternate means of connectivity, in case the existing system fails to work. But in case of technical glitches due to Exchange's software/working/electric mal functioning, then the client will be responsible for non-execution of his trades.

Handling of Non compliance risks

- We would ensure that all the necessary policies are formulated and all SEBI & exchange compliances are adhered to avoid any penalty.
- In case of any misuse of system by any client/sub-broker/authorized person/branch, then the penalty pertaining to it would be assigned to that respective client.
- Client would be assigned penalties and would be solely responsible for issues of non-compliance pertaining to his KYC document, trading essentials, margin obligations, pay-in pay-out obligations or inadvertent errors like trading in banned/T to T scrips.

Handling of Unforeseen risks

- Unforeseen risks due to natural calamity exist in all types of environment and the client should be ready to bear the risk arising out of it.

To strengthen our risk management system we would ensure the following things:

1. Strong internal controls

- Registration of clients: KYC forms should be taken from all the clients. KYC forms should carry comprehensive details of all the clients. Client consent and/or intimation as required under compliance rules should also be included in the form. It should be seen that the client adheres to all the required compliances of regulatory bodies
- Receiving, validating and entering orders of clients in the trading platform: orders are taken and executed by certified users only.
- Collection and release of payments to clients: Upfront margin is taken form all the clients and them at the end of the day margins- both Exposure and MTM is collected from clients on daily basis and reported to the exchange.
- Collection and maintenance of margins: as above

- Collection and delivery of securities to the clients: We intend to open a separate Dmat A/C for keeping securities of our clients. All securities to be pledged to the exchange would be picked up from the Dmat a/c. Clients' securities would be released only on verification of client's position as regards to their open positions.
- Monitoring of branches/sub-brokers: all the activity would be monitored from the Admin terminal and limits would be assigned to all the branches and/or sub-brokers according to margins received from them.
- Operations and compliance: the appointed compliance officer takes care of all the compliance requirements and all necessary formalities are adhered to.
- Payment of dividend: Clients bank A/C would be assigned to the Dmat a/c of clients that would be opened and all dividends received on clients securities would be credited to clients a/c on verification of their holding as on RD.
- Continuity planning/alternate plan in case of disasters: back up is taken and kept separately in other place different from the place of trading.
- On-line surveillance of trades should be done from admin terminals to detect abnormal trades and aberrations.
- Proper back up of all records should be taken and kept separately at a different place other than the back-office.

2. Educating clients for do's and don'ts

Implementation of KYC procedures requires dealers to demand certain information from the customers that may be of personal in nature or which have hitherto never been called for. This can sometimes lead to a lot of questioning by the customer as to the motive and purpose of collecting such information. Therefore, the front desk staff needs to handle such situations tactfully while dealing with customers and educate the customer of the objectives of the KYC program. The dealers shall also be provided specific literature/pamphlets to educate customers in this regard.

3. Encompassing new technologies

The KYC procedures shall invariably be applied to new technologies to such other product that may be introduced by the broker in future that might favor anonymity, and take measures, if needed to prevent their use in money laundering schemes.
Dealers should ensure that appropriate KYC procedures are duly applied before issuing he client code to the customers. It is also desirable that if at any point of time broker appoints/engages agents for marketing of products are also subjected to KYC measures.
While, the revised guidelines shall apply to all new customers/accounts, dealers shall apply these to the existing customers on the basis of materiality and risk. However, transactions in existing accounts shall be continuously monitored and any unusual pattern in the operation of the account should trigger a review of the Customer Due Diligence (CDD) measures. It has however to be ensured that all the existing accounts of companies, firm, trusts, charitable, religious organizations and other institutions are subjected to minimum KYC standards which would establish the identity of the natural/legal person and those of the 'beneficial owners'.

4. Training to employees-

- Staff should be encouraged to attend seminars and lectures to strengthen their knowledge.
- Reference books, rules and bye-laws should be kept handy in case any doubts needs to be cleared.

5.Managing risk on continuous basis

The following process is being followed for risk management:

Identifying risk- generally monitored through admin terminals manually.

- Deciding how much credit should be given to each client- Limits for each client is monitored according their financial position and their risk profile as mentioned in KYC. For a branch limits are set from the admin terminal by the Head office. For a Sub-broker limit is set after considering both their existing collateral and margin handling capacity.
- Deciding the frequency of collection of margins. Especially in F&O – margins are collected upfront and on daily basis. The back office software works out the margin obligations of all clients after considering their open positions, collateral in hand and credit & debits lying in their account. For cash segment we usually tend to follow the policy of immediate cheques on debit.
- Deciding how much risk is acceptable- MTM/ Span margin is calculated as and when the need arises before the trading session ends with the help of exchange files and e-span software available.
- Controlling risk on continuous basis
- Monitoring risk taken on continuous basis- the client is accommodated if he has credits lying in other segments to ensure smooth functioning of market obligations.
- Any internal shortage is taken care of by way of policy set in our KYC document (refer Policy- f pg 36). Any change in policy or rules pertaining to auction of shares may render the policy to undergo changes accordingly.

All other requirements and need are taken care of by compliance officer as and when the need arises.

19: POLICY FOR -CODE OF BUSINESS CONDUCT AND ETHICS

Introduction

This Code of Business Conduct and Ethics covers a wide range of business practices and procedures. It sets out basic principles to guide all employees of the firm. It is supplemented by our Policies, Guidelines and Procedures, which, collectively, provide a framework for prudent decision-making.

All of our employees must conduct themselves in accordance with this Code and seek to avoid even the appearance of improper behavior. In this respect, our tradition is that we will engage in no business or political arrangement that would be embarrassing to us if it were published on the front page of the local paper.

A Firm can create a more restrictive policy if the partners believes such a policy would enhance the spirit and intent of this policy.

This Code also should be provided to and followed by the firm's agents and representatives, including consultants.

If a law conflicts with a policy in this Code, you must comply with the law; however, if a local custom or policy conflicts with this Code, you must comply with the Code. If you have any questions about these conflicts, you should ask your supervisor how to handle the situation.

Employees who violate the standards in this Code will be subject to disciplinary action. *If you are in a situation that you believe may violate or lead to a violation of this Code, follow the guidelines described in Section 11 of this Code*.

1. Compliance with Laws, Rules and Regulations

Obeying the law, both in letter and in spirit, is the foundation on which this firm's ethical standards are

built. All employees must respect and obey the laws of the cities, states and countries in which we operate. Although not all employees are expected to know the details of these laws, it is important to know enough to determine when to seek advice from supervisors, managers or other appropriate personnel. The firm holds information and training sessions to promote compliance with laws, rules and regulations, including insider trading laws.

2. Conflicts of Interest

A "conflict of interest" exists when a person's private interest interferes in any way with the interests of the firm. A conflict situation can arise when an employee, officer or partner takes actions or has interests that may make it difficult to perform firm work objectively and effectively. Conflicts of interest also may arise when

(a) an employee, officer or partner, or family member, receives personal benefits from third parties as a result of his or her position in the firm. For example, loans or guarantees of obligations of loans to employees and their family members may create conflicts of interest.

(b) It is almost always a conflict of interest for a firm employee to work simultaneously for a competitor, customer or supplier. You are not allowed to work for a competitor as a consultant or board member.

(c) Any employee who wishes to perform consulting services of any kind must inform and obtain prior approval from the partners. In no event may an employee perform consulting services for a competitor. Additionally, outside consulting is viewed as a conflict of interest for salaried employees who are expected to devote their professional efforts solely to the firm. The best policy is to avoid any direct or indirect business connection with our customers, suppliers or competitors, except on our behalf.

(d) Acceptance of gifts in a business relationship can also result in a conflict of interest. No gift or entertainment should ever be accepted by any firm employee, directly or indirectly through a family member or agent unless it: (1) is not a cash gift, (2) is consistent with customary business practices, (3) is not excessive in value, (4) cannot be construed as a bribe or payoff and (5) does not violate any laws or regulations. Please discuss with your supervisor any gifts or proposed gifts that you are not certain are appropriate. Any gift given or received that is valued in excess of Rs.1000 must be reported to the Compliance Officer.

Conflicts of interest are prohibited as a matter of firm policy, except under guidelines approved by the Partners. Conflicts of interest may not always be clear-cut, so if you have a question, you should consult with higher levels of management. Any employee, officer or partner who becomes aware of a conflict or

potential conflict should bring it to the attention of a supervisor, manager or other appropriate personnel or consult the procedures described in Section 11 of this Code.

3. Insider Trading

Employees who have access to confidential information are not permitted to use or share that information for stock trading purposes or for any other purpose except the conduct of our business. All non-public information about the firm should be considered confidential information. To use non-public information for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also illegal. If you have any questions, please consult the firm's Compliance Officer.

4. Corporate Opportunities

Employees, officers and partners are prohibited from taking personal gain through the use of firms property, information or position without the consent of the partners. No employee may use firms property, information or position for improper personal gain, and no employee may compete with the firm, directly or indirectly. Employees, officers and partners owe a duty to the firm to advance its legitimate interests when the opportunity to do so arises.

5. Competition and Fair Dealing

We seek to outperform our competition fairly and honestly. We seek competitive advantages through superior performance, never through unethical or illegal business practices. Stealing proprietary information, possessing trade secret information that was obtained without the owner's consent, or inducing such disclosures by past or present employees of other companies is prohibited. Each employee should endeavor to respect the rights of and deal fairly with the firm's customers, suppliers, competitors and employees. No employee should take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other intentional unfair-dealing practice.
To maintain the firm's valuable reputation, compliance with our quality processes and safety requirements is essential. In the context of ethics, quality requires that our products and services
be designed and produced to meet our obligations to customers. All inspection and testing documents must be handled in accordance with all applicable regulations.

The purpose of business entertainment and gifts in a commercial setting is to create good will and sound working relationships. No gift or entertainment should ever be offered, given, or provided by any firm employee, directly or indirectly through a family member of an employee or agent unless it: (1) is not a cash gift, (2) is consistent with customary business practices, (3) is not excessive in value, (4) cannot be construed as a bribe or payoff and (5) does not violate any laws or regulations. Please discuss with your supervisor any gifts or proposed gifts that you are not certain are appropriate. Any gift given or received that is valued in excess of Rs.1000 must be reported to the partners.

6. Payments to Government Personnel

The Legal Framework prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country.

In addition, the Indian government has a number of laws and regulations regarding business gratuities that may be accepted by Indian government personnel. The promise, offer or delivery to an official or employee of the Indian government of a gift, favor or other gratuity in violation of these rules would not only violate firm policy but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules. The firm's Compliance officer can provide guidance to you in this area.

7. Record-Keeping

Honest and accurate recording and reporting of information is required of all employees. Records should always be retained or destroyed according to the firm's record retention policies. In accordance with those policies, in the event of litigation or governmental investigation please immediately consult the firm's partners, as set forth in the firm's legal policy. Maintain all records related to the matter until after

consultation with partners.

All of the firm's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the firm's transactions and must conform both to applicable legal requirements and to the firm's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation and approved by the firm's partners.

Business records and communications often become public, and we should avoid exaggeration, derogatory remarks, guesswork, or inappropriate characterizations of people and companies that can be misunderstood. This applies equally to e-mail, internal memos and formal reports.

8. Confidentiality

Employees must maintain the confidentiality of confidential information entrusted to them by the firm or its customers, except when disclosure is authorized by the firm's Partners or required by laws or regulations. Confidential information includes all nonpublic information that might be of use to competitors, or harmful to the firm or its customers, if disclosed. It also includes information that suppliers and customers have entrusted to us. The obligation to preserve confidential information continues even after employment ends.

9. Protection and Proper Use of firm Assets

All employees should protect the firm's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on the firm's profitability. Any suspected incident of fraud or theft should be immediately reported for investigation. firm equipment should not be used for non-firm business, though incidental personal use is permitted.

The obligation of employees to protect the firm's assets includes its proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks and copyrights, as well as business, marketing and distribution plans, engineering ideas, designs,databases, records, salary information and any unpublished financial data and reports. Unauthorized use or distribution of this information would violate firm policy. It also could be illegal and result in civil or even criminal penalties.

10. Statements to the Public

No public statements may be made as a representative of the firm without prior authorization from the Partners.

Any employee who wishes to speak at a public event or submit an article for a publication in a trade magazine or other publication must obtain prior approval from the partners. While we recognize and support your right to engage in legal activities while you are not working, we also must be careful to (1) avoid the employee's position being mistaken for the position of the firm, (2) avoid an interpretation that the firm in any way endorses the employee's position, and (3) avoid a violation of any other policies of the firm, including those related to conflict of interest and confidentiality of firm property and information.

11. Waivers of the Code of Business Conduct and Ethics

Any waiver of this Code for employees may be made only by the Partners and will be promptly disclosed as required by law or the Stock Exchange rules.

12. Reporting any Illegal or Unethical Behavior

We all must work to ensure prompt and consistent action against violations of this Code. In some situations, however, it is difficult to know right from wrong. Since we cannot anticipate every situation that will arise, it is important that we have a way to approach a new question or problem. These are the steps to keep in mind:

- Make sure you have all the facts. In order to reach the right solutions, we must be as fully informed as possible.
- Ask yourself: What specifically am I being asked to do? Does it seem unethical or improper? This will enable you to focus on the specific question you are faced with, and the alternatives you have. Use your judgment and common sense; if something seems unethical or improper, it probably is.
- Discuss the problem with your supervisor. This is the basic guidance for all situations. In many cases, your supervisor will be more knowledgeable about the issue and will appreciate being brought into the decision-making process. Remember that it is your supervisor's responsibility to help solve problems.
- Seek help from firm resources. In the rare case where it may not be appropriate to discuss an issue with your supervisor, or where you do not feel comfortable approaching your supervisor with your question, discuss it with the partners
- You may report ethical violations in confidence and without fear of retaliation. The firm does not permit retaliation of any kind against employees for good faith reports of ethical violations.

December 17, 2013

20. POLICY FOR PRE-FUNDED INSTRUMENTS / ELECTRONIC FUND TRANSFERS

Policy created by : Anand Jain
Policy reviewed by : Compliance Head
Policy reviewed on : 30th April 2015
Policy approved by : Board of Directors
Policy approved on : 30th April 2015

Objective:
The objective of the policy is to prevent acceptance of third party funds and to prescribe process to deal with instruments issued by third party when received.

Background:
SEBI vide circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 has specified that the stock brokers can accept demand drafts from their clients. However, SEBI vide circular no. CIR/MIRSD/03/2011 dated June 9, 2011 and National Stock Exchange vide its circular no. NSE/INSP/18024 dated 09-Jun-11 has advised stock brokers to maintain an audit trail while receiving funds from the clients through Demand Draft (DD)/Pay Order (PO)/Bankers Cheque (BC) since such third party pre-paid instruments do not contain the details like name of the client, bank account number are not mentioned on such instruments. Non maintenance of audit trail may result in flow of third party funds or unidentified money which may result into breach of regulations issued under PMLA and SEBI circulars.

Terms used in this policy:
1. **Prefunded Instruments** - Referred as Pay order, Demand Draft, banker's cheque etc.
2. **Electronic Fund Transfers -** Referred as transfer of funds using net banking

Policy:
SEBI vide circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 has specified that the stock brokers can accept demand drafts from their clients. However, in accordance with SEBI circular no. CIR/MIRSD/03/2011 dated June 9, 2011, the following needs to be complied: 1. A "Pre-paid instrument received register" with columns for date, name of the client, amount, instrument drawn on (bank name) and such other columns as found necessary shall be maintained. The register may be maintained either in a physical form or in electronic form.
2. Pre-paid instruments of the value of less than Rs 50,000 may be accepted from the client. Whenever such instruments are received, entry into 'Pre-paid instruments Received register shall be made.
3. If the pre-paid instrument is for value more than Rs 50,000 or If the aggregate value of prefunded instruments is Rs. 50,000/- or more, per day per client is presented for acceptance, such instrument or instruments may be accepted, only if the same is/are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:
I. Certificate from the issuing bank or its letter head or on a plain paper with the seal of the issuing bank.
II. Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.
III. Certified copy of the passbook / bank statement for the account debited to issue the instrument.
IV. Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.
4. If a client submits pre-paid instruments at different times during the day, details and certificates as stated above may be collected along with the instrument with which the aggregate value of pre-paid instruments submitted exceeds Rs 50,000 for that date.
5. In case of any receipt of funds by way of Electronic fund transfer, an audit trail to ensure that funds are received from respective client only has to be maintained. Necessary details may be collected from banker at which the amount is received.
6. If the pre-paid instrument is received through post or any other method where client does not directly interface for submission of the instrument and the instrument does not contain the information as required above, the following action may be taken:
- Contact the client immediately and seek information. Not to bank the instrument until the information is given by the client.

• If the pre-paid instrument is bank transfer, contact banker immediately for the details; not utilize the amount so credited until the details are received and not to give credit to the customer until banker gives the details/certification.

7. While giving credit to respective client's ledger, Head office needs to cross check / verify with documents that such instrument is received from respective clients.

Approval Authority:

This policy shall be approved by its Board (in case of corporate trading member), Partners (in case of partnership firms) or Proprietor (in case of sole proprietorship firm) as the case may be.

Review Policy:

This policy may be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs. In case of Individuals / Partnership Members: The policy may be reviewed by the Managing Directors. In case of Corporate Members: The policy may be reviewed by the Managing Director/CEO and place the changes in policy before the Board at the meeting first held after such changes are introduced.

Policy communication:

A copy of this policy shall be made available to all the relevant staff who are responsible for receipt of funds from clients and customer service executives.

Disclaimer: From time to time this policy will be made more comprehensive based on our business requirements and this may not be treated as the full and final policy. Reference circulars of any other exchange might be added as and when required.

21. NISM VII POLICY

Policy created by : Anand Jain
Policy reviewed by : Compliance Head
Policy reviewed on : 30th April 2015
Policy approved by : Board of Directors
Policy approved on : 30th April 2015

FOR NSE, BSE, MCX-SX
POLICY ADOPTED FOR OFFICERS IN CRITICAL POSITIONS
(Download Ref.No.: NSE/INSP/27495 Date : September 2, 2014 Circular Ref.No.: 198/2014)

NISM-Series-VII: Securities Operations and Risk Management Certification Examination

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As per the said guidelines mentioned in SEBi and Exchange's circulars , persons associated with a registered stock-broker/trading member/clearing member who are involved in, or deal with, any of the below mentioned functions are required to have a valid NISM Series VII Certification:

(a) Assets or funds of investors or clients,
(b) Redressal of investor grievances,
(c) Internal control or risk management, and
(d) Activities having a bearing on operational risk,

In view of the operational difficulties expressed by the Members, in consultation with SEBI and other Exchanges it was decided by SEBI that requirement of passing of **NISM Series VII - Securities Operations and Risk Management Certification** exam would be optional for associated persons handling the basic clerical/elementary functions in the above stated areas and whose work is supervised by NISM Series VII -Securities Operations and Risk Management Certification certified personnel. The broad indicative activities that can be classified as basic elementary level/clerical level are enclosed as **Annexure-A**.

The adherence to the above shall be verified during the inspections and Internal Audits of the Members. Members are requested to take note of the above and ensure compliance by December 31,2014

ANNEXURE-A(forming part of Policy for NISM VII certificate

Indicative activities falling under basic elementary level/clerical level

Internal control or risk management

1. Inwarding of collateral's/cheques
2. Person performing maker entries
3. Maker entry in the database
4. Photocopying, printouts, scanning of documents
5. Preparing of MIS
6. Sending of letters/reports to clients, Exchanges, SEBI
7. Attending calls, etc.

Redressal of investor grievances

1. Inwarding of complaints,
2. Seeking documents from clients
3. Person performing maker entries
4. Maker entry in the database
5. Photocopying, printouts, scanning of documents
6. Preparing of MIS
7. Sending of letters/reports to clients, Exchanges, SEBI Updation, data entry, uploading on SCORES.
8. Attending calls, etc.

Activities having a bearing on operational risk and dealing with assets or funds of investors or clients

1. Person performing maker entries
2. Maker entry in the database
3. Preparing MIS
4. Generating reports, Files
5. Photocopying, printouts, scanning of documents
6. Dispatching documents to clients
7. Sending of letters/reports to clients, Exchanges, SEBI
8. Attending calls, etc.

22. Policy for Internal control

1. Details

- Date of starting of business- 9th Feb 1998 as corporate entity
- Background of company-

Our organization was established as a sole proprietorship firm in the year 1985 in the name of Kalyan mal Jain. Till the year 1991, our main focus was Institutional clients. Later in the year 1992, we added sub brokers to expand our clientele base. In the year 1997, we took advantage of the government's policy of corporatization and converted our firm to a corporate entity on 3rd Dec 1997.
2000- We became CM of F&O segment of BSE
2001- We became Depository Participant of CDSL
2005- We became NSE membership- Capital Segment and TM in F&O segment
2007- We converted our BSE F&O segment membership to TM from CM
Our clientele base includes- direct clients, Domestic financial institutions, Sub-brokers and APs.

2 .Client Code Modification:

- Reasons for the modification of client codes

-Genuine punching errors; Inter family changes; Institutional changes; No back-office modification is done

- Ratio of modification of client codes done at Head office vis-à-vis other offices

30:70

- Directors need to be informed before the rectification is allowed through Admin Terminal

- Measures taken to reduce the modification of client codes.

'Client modification' option is locked for all terminals. Whenever there is any call for modification, then the senior management of head office checks the details and then allows modification to be done.

- Whether the trades have been modified only for the objective criteria allowed by the Exchange?

Yes. Client code modification policy has been formulated keeping in mind the criteria set by Exchange.

- Whether securities taken into ERROR A/c are liquidated in the same A/c? Yes

3 .PMLA

- Compliance w.r.t. Principle Officer and adoption of written policy.

Principal officer appointed on 310107

- Written policy also emailed to the authorities in New Delhi (Copies enclosed)

- Measures taken with regard to Anti money laundering Act

Trades are monitored through admin terminals and alerts generated. As regards money transfers are concerned; we do not accept third party transfers or cheques.

- System of keeping a check on Volume of trading done by the client is in proportion to his financial details as disclosed in the KYC.

Exposure is given as per the client's rating and financial capabilities.

- Alerts for the same generated or not?

  Yes.

- Any Suspicious Transaction Report (STR) sent to FIU

Till now, there was no such requirement.

- Risk categorization of clients.

Done as per PMLA policy

4.Introduction/Registration of clients

- Basis of accepting as client

Clients accepted through sub-brokers and remisiers. Walk-in clients are generally not encouraged. Direct clients are normally introduced by friends and relatives of promoters.

- Procedure for In-person verification of clients and maintenance of proof for the same, specifically in respect of out station & sub-broker clients
  In-person verification is done by Head-office for all Mumbai clients.
  For Indore branch- in person verification done by Mr Ajit Modi
  For Guwahti branch- in person verification done by Ms Priya Kuthari
  For Udaipur Branch- in person verification done by Ms Megha Dagliya
- Whether Client Registration Documents (CRD) given to new clients & to existing clients, on demand. Also, whether UCC & email ID communicated to clients on CRD or separate letter, and proof for the above.
  Yes,copy of KYC given to clients and proof/acknowledgement kept.
  Yes, UCC communicated to client through letter.
- Do you outsource client registration modalities?
  No
- Do you entertain walk in clients? If yes, what are risk mitigation measures taken in dealings with such client.
  Though , generally discouraged, if we come across such a situation, we would ensure his credentials before accepting him as a client.
- Process of record keeping and retrieval of client registration document.
  All KYCs kept methodically at head office.

5.Funds:

- System of pay in and pay out of funds from / to clients
  Pay-in & pay-out done through settlement cum client account.
- Running Account authorization taken from clients, where pay-in pay-out not done bill to bill.

  Clients are asked to settle the accounts once in three months.
- System & source of pay in and pay out of funds in case of Own trading
  Own and clients' funds account maintained separately
- Procedure of Margin collection, if any from clients & maintenance of records thereof
  Generally for cash segment , we do not collect margin from clients.
- Any funding is done to the clients
  No. however TOD facility is taken to ensure smooth pay-in incase of non-clearance of cheques.
- Credit / transfer of Dividend to the clients / own dividend
  Separate dividend accounts maintained for client and Own.
- Procedure followed in case of default by client/ sub broker's client
  First step would be to liquidate clients' assets, if debts are not covered by it, then we might go for arbitration.
- Payment to sub brokers / remisiers
  Yes, only registered remisiers and sub-brokers

- Any third party transfer of funds? If yes , policy in this regard
  No

6.BOLT Terminal

- Procedure of accepting & placing of orders- through phones.

The respective dealer assigned for a group of clients is responsible for taking and placing orders through phone. For sub-brokers and branches, the principal officer is responsible, who in turn usually appoints dealers/remisiers.

- Factors determining the trading limit for each terminal / client

Detailed procedure is referred as per the rating of the client. Separate policy for client exposure has been formulated to assist dealers in assigning limits to clients.

- Control over operator to ensure that he is entering authorized trades only

Trades are reconciled and confirmed to clients on daily basis and any mismatch is detected and enquired for with operators.

- System in place to check certification of approved users has not expired

Separate person in-charge to monitor certificate validity

7.Contract Notes

- Whether printing of contract note is centralised? If not, Place from which CN are printed.

Processing is centralized. Printing of physical contract notes, if necessary, is done from Indore and Guwahati branch.

- Procedure for printing CN in case of outstation clients / sub broker clients
  -Do -
  Basis of numbering
  Physical contract notes issued from head office are numbered from 1 beginning April. Same procedure is followed at Indore and Guwahati.
  System for maintaining duplicates & acknowledgement for CNs
  All duplicate physical contract notes are maintained settlement wise.

8.Securities:

- System of pay in and pay out of securities from / to clients

No third party pay-in accepted or pay-out done. If the client has in-house DP account, then the pay-out is directly done to his account otherwise securities are retained in Designated Client Account.

- Separate Own Beneficiary Account maintained or not

Yes

- Separate Client beneficiary account maintained or not

Yes

- Client wise segregation of securities maintained or not

Yes

- Whether Clients' securities maintained with Member

In-house DP facility available

- Procedure for check on Third party security transfer/ acceptance

Not accepted

- Policy to ensure that client's securities are not mis-utilised for own purposes or for any other client.

Being a DP, off market transactions for market obligations not accepted.

9.**Statements of Accounts & Daily Margin Statement**

- Whether statement of accounts for funds and securities are issued on monthly or quarterly basis.
  Every Quarter
- Whether statement of accounts is issued from the branches/sub-broker's office/authorized persons office. If yes, the procedure followed for issuance and the maintenance of the duplicates and proof of delivery. Yes from Guwahati office in physical form.
- Whether statement of accounts is issued physically or digitally?
  Digitally
- Whether daily margin statement is issued as per prescribed format? The mode of sending the same to the clients?
  Yes. Digitally

10.Execution of POA (Power of attorney) (if applicable) -

- Process adopted for execution of POA. – For trading in capital market and F&O segments we do not like to work under POA. However for DP accounts POA are needed to ensure smooth pay-in and pay-out of clients.
- Internal control adopted to ensure that POA is not misused.- DP POA are taken only for market obligations and not for any other purpose.

11.Opening & closing of branches

- Procedure adopted for opening & closing of branches-

Personal visit by senior officer from head office is a must before opening any new branch. After physical verification, the senior management discusses viability and economies of scale, modus operandi and other nuances of the process of establishment of a branch.

For closure of a branch- we need to ensure that all ledger accounts/beneficiary accounts of clients stand nullified and that there is smooth transition for clients.

All necessary documents should be procured before closure so that we can maintain records as per the guidelines of authorities.

- In case of closure of branches, how and when do you communicate existing clients?

We would ensure smooth transition of clients to cut down any inconvenience. Clients are contacted according to their existing exposure. Small clients are generally intimated immediately as it involves less paper work. Big clients are given more time to square up their positions before closing down their account.

12.Closure of client accounts / dormant account

- What type of documentation (both inward and outward) undertake for closure of account.
  Written letter from client is must for closure of account
  After due online de-registration, the intimation is sent to client either by email or in writing.
- In case of dormant account (six month), what extra caution taken before execution of trade in such account

The client is interrogated directly about his intention to trade and about the hiatus in his trading pattern.

- Procedure adopted in case of very old dormant account (2 years old)-

Where the client has not traded for more than 2 years consecutively, then the client is contacted directly either by email or phone. If there is no favorable response from the client then he will be sent a letter by registered post or courier asking whether he wishes to continue as a client with us or not. In case the client does not respond within 7 days of receipt of the letter , then we would close the dormant account.

13.Receiving and Execution of Orders

- Mode of order acceptance at HO/Branches/Sub-brokers office/AP's offices

Normally orders are accepted over the phone in all the offices. Though limit orders are also accepted through client's email or fax.

- Any document is maintained for the clients who personally walk into the office and place the order?

Normally we discourage clients to come to our offices for trading, but incase the client places order over the counter, then the dealer has to keep a track of his activities and sees to it that he accepts the confirmation.

- System for identifying authenticity of caller when the order is placed through telephone.

Each dealer is assigned a group of clients to whom he caters. The general practice is voice recognition and any out of line trade would be informed to higher authority before trade execution.

14. Portfolio Manager N.A

- Whether Trading Member acting as a portfolio manager?
- Procedure for client registration, order execution, contract notes issuance and settlement mechanism followed for the same.
- Whether any of the client of the TM is acting as a portfolio manager?

15. Brokerage Charged

- Brokerage schemes provided to the clients? No schemes

Normal brokerage rate is 0.25% for delivery and .05% SDS

For others it is decided on the basis of financial profile, level of activity and past association of clients with the company

- Elaborate on the schemes provided? No schemes formulated.

23. PMLA policy

Policy created by : Anand Jain
Policy reviewed by : Compliance Head
Policy reviewed on : 30th April 2015
Policy approved by : Board of Directors
Policy approved on : 30th April 2015

FOR NSE, BSE, MCX-SX & CDSL
POLICIES & PROCEDURES ADOPTED FOR PREVENTION OF MONEY LAUNDERING
(Issued as per the requirements of PMLA Act 2002)
(First Policy sent to FIU- New Delhi on 8th January 2008)

1. Objective & Policy: Primary objective of our firm would be **'**Prevention of money laundering through designated brokers, intentionally or unintentionally by criminal elements'. It is the policy of our firm to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities.

2. Principal Officer appointment & duties: Our firm has designated **Mr. Anand Jain** as the principal officer and intimated the authority vide letter dtd. **31.01.07**, thereby complying with the procedure of designating a sufficiently senior person as 'Principal Officer' as required under the Prevention of Money Laundering Act. The principal officer will promptly notify Financial Intelligence Unit (FIU) of any change to the details of our firm. The principal officer will also ensure maintenance of proper records and filing of records with FIU, whenever required.

3. Appointment of Director:
(Director – Ms Madhulika Jain appointed on 14.03.2014 by the company)
i) In addition to the existing requirement of designation of a principal officer, the registered intermediaries shall also designate a person as a "Designated Director". In terms of Rule 2 (ba) of the PMLA Rules, the definition of a designated director reads as under: Designated director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and rules and includes:

- The managing director or a whole time director duly authorized by the board of directors if the reporting entity is a company
- The managing partner if the reposting entity is a partnership firm
- The proprietor if the reporting entity is a proprietorship firm
- The managing trustee if the reporting entity is a trust
- A person or individual as the case maybe, who controls and manages the affairs of the reporting entity is an unincorporated association or a body of individuals, and
- Such other person or class of persons as may be notified by the government if the reporting entity does not fall in any of the categories above.

(ii) In terms of Sec 13(2) of the PMLA act (as amended by the PMLA Act -2012) the director, FIU-IND can take appropriate action, including levying of monetary penalty, on the Designated Director for the failure of the intermediary to comply with any of its AML/CFT obligations.
(iii) Registered intermediaries shall communicate the details of the designated Director, such as, name, designation, and address to the office of the Director, FIU-IND.

4. Know Your Customer Standards: Our KYC policy incorporates the following four elements:

- Customer Acceptance Policy (CAP)
- Customer Identification Procedures (CIP)
- Monitoring of Transactions; and
- Risk Management

Customer Acceptance Policy (CAP)

The following points are kept in mind before accepting the KYC form of a probable client

- No account shall be opened in anonymous or fictitious/benami name(s)
- Parameters of risk perception shall be clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc., to enable categorization of customers into low, medium and high risk; Customers requiring veryhigh level of monitoring e.g., Politically Exposed Persons (PEPs) may be categorized under Very High Risk.

The risk to the customer shall be assigned on the following basis:

Low Risk

Individuals (other than High Net Worth) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. The illustrative examples of low risk customers could be salaried employees whose salary structures are well defined, people belonging to lower economic strata of the society whose accounts show small balances and low turnover, Government Departments and Government owned companies, regulators and statutory bodies etc. In such cases, only the basic requirements of verifying the identity and location of the customer shall be met.

Medium Risk

Customers that are likely to pose a higher than average risk to the broker may be categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc; such as

- Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
- Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.

High Risk

The dealers may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear. The examples of customers requiring higher due diligence may include

a) Non Resident Customers,

b) High Net worth individuals

c) Trusts, charities, NGOs and organizations receiving donations,

d) Companies having close family shareholding or beneficial ownership

e) Firms with 'sleeping partners'

f) Politically Exposed Persons (PEPs) of foreign origin

g) Non-face to face customers, and

h) Those with dubious reputation as per public information available, etc.

Very High Risk- PEP

Politically Exposed Persons (PEPs)

Clients of special category (CSC)

Such clients include the following

a. Non resident clients
b. High net worth 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 we have to exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

- The dealers shall collect documents and other information from the customer depending on perceived risk and keeping in mind the requirements of AML Act, 2002 and guidelines issued by RBI from time to time.
- The dealers shall close an existing account or shall not open a new account where it is unable to apply appropriate customer due diligence measures i.e., branch is unable to verify the identity and/or obtain documents required as per the risk categorization due to non cooperation of the customer or non reliability of data/information furnished to the branch. The dealers shall, however, ensure that these measures do not lead to the harassment of the customer. However, in case the account is required to be closed on this ground, the dealers shall do so only after permission of Senior Official of their concerned Offices is obtained. Further, the customer should be given a prior notice of at least 20 days wherein reasons for closure of his account should also be mentioned.
- The dealers shall make necessary checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations etc. RBI has been circulating lists of terrorist entities notified by the Government of India so that brokers exercise caution against any transaction detected with such entities. The dealers shall invariably consult such lists to ensure that prospective person/s or organizations desirous to establish relationship with the broker are not in any way involved in any unlawful activity and that they do not appear in such lists.
- The dealers shall prepare a profile for each new customer based on risk categorization. The broker has devised a revised Composite Account Opening Form for recording and maintaining the profile of each new customer. Revised form is separate for Individuals, Partnership Firms, Corporate and other legal entities, etc. The nature and extent of due diligence shall depend on the risk perceived by the dealer. The dealers should

continue to follow strictly the instructions issued by the broker regarding secrecy of customer information. The dealers should bear in mind that the adoption of customer acceptance policy and its implementation does not become too restrictive and should not result in denial of brokering services to general public, especially to those, who are financially or socially disadvantaged.

Customer Identification Procedure (CIP)

The following table will be referred for customer identification and verification procedure:

Client's-Constitution	**Proof of identity**	**Proof of Address**	**Others**
Individual	1. Pan card	2. Copy of bank Statement etc	3. N.A
Company	4.Pan card 5.Certificate of Incorporation 6. Memorandum & Articles 7. Board Resolution	8. As Above	9. Proof of Identity of Directors/others authorized to trade
Partnership Firm	10. Pan Card 11. Registration certificate 12. partnership deed	13. As above	14. Proof of Identity of partners/others authorized to trade
Trust	15. Pan Card 16. Registration certificate 17. Trust deed	18 As above	19. Proof of Identity of trustees/others authorized to trade
AOP/BOI	20 Pan Card 21. Resolution of Management 22. Certificate of legal Existence	23 As above	24 Proof of Identity of persons/others authorized to trade

Notes:

- All Pan cards to be verified from Income Tax/ NSDL sites before the account is opened
- If a potential customer refuses to provide the above details or willfully provides misleading details, then our firm will not open the trading account.
- Client records will be maintained for 10 years after closure of Trading account of any client
- Reluctance on the part of the client to provide necessary information or cooperate in verification process could generate a red flag for the member for additional monitoring.

5. Record maintenance: Record keeping/ Retention of records/Freezing of Records

The principal officer should maintain such records that 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.

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.
More specifically, all the intermediaries shall put in place a system of maintaining proper record of transactions prescribed under Rule 3, notified under the Prevention of Money Laundering Act (PMLA), 2002 as mentioned below:
(i) All cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
(ii) All series of cash transactions integrally connected to each other, which have been valued below rupees ten lakh 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 lakh;
(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.
Intermediaries are required to maintain 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.

Retention of Records

Intermediaries should take appropriate steps to evolve an internal mechanism for proper maintenance and

preservation of such records and information in a manner that allows easy and quick retrieval of data as and when

requested by the competent authorities. Further, the records mentioned in Rule 3 of PMLA Rules 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.

As stated in para 5.5, intermediaries are required to formulate and implement the client identification program

containing the requirements as laid down in Rule 9 and such other additional requirements that it considers appropriate. The records of the identity of 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.

Thus 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.

6. Monitoring & Reporting of Suspicious Transactions:

Ongoing monitoring of accounts is an essential element of an effective Anti Money Laundering framework. Such monitoring should result in identification and detection of apparently abnormal transactions, based on laid down parameters. Members should devise and generate necessary reports/alerts based on their clients profile, nature of business, trading pattern of clients for identifying and detecting such transactions. These reports/alerts should be analyzed to establish suspicion or otherwise for the purpose of reporting such 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:

i) Clients whose identity verification seems difficult or clients appear not to cooperate
ii) Substantial increase in activity without any apparent cause
iii) Large number of accounts having common parameters such as common partners / directors / promoters / address / email address / telephone numbers / introducers or authorized signatories;
iv) Transactions with no apparent economic or business rationale
v) Sudden activity in dormant accounts;
vi) Source of funds are doubtful or inconsistency in payment pattern;
vii)Unusual and large cash deposits made by an individual or business;
viii)Transfer of investment proceeds to apparently unrelated third parties;
ix) Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;
x) 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.;
xi) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
xii)Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk

jurisdictions;
xiii)Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
xiv) Purchases made on own account transferred to a third party through off market transactions through DP Accounts;
xv) Suspicious off market transactions;
xvi)Large deals at prices away from the market.
xvii) Accounts used as 'pass through'. Where no transfer of ownership of securities or trading is occurring in the account and the account is being used only for funds transfers/layering purposes.
xviii)Trading activity in accounts of high risk clients based on their profile, business pattern and industry segment.

Broad categories for reason of suspicion are given below:

- Suspicious criminal background of the client
- Multiple accounts having coomon account holder or introducer or authorized signatory with no rationale
- Unusual activity in dormant accounts or in aberration to past activities
- Source of funds are doubtful
- Appears to be case of insider trading
- Suspicious off-market transactions
- Value of transaction being inconsistent to client's financial standing

7. Reporting of Suspicious Transactions to FIU IND

Processes for alert generation, examination and reporting should include

- Audit trail for all alerts generated till they are reported to FIU / closed
- Clear enunciation of responsibilities at each stage of process from generation, examination, recording and reporting
- Escalation through the organization to the principal officer designated for PMLA
- Confidentiality of STRs filed
- Retention of records

All cash transaction requiring reporting will be done in CTR format and in the manner and at intervals prescribed by FIU IND.

We will make a note of all transactions that have not been explained to the satisfaction of our principal officer and thereafter report the same to FIU IND.

Wherever we have reason to suspect any criminal activity, illegal activity, activity involving evasion of PMLA regulations and unlawful business activity, then the same would be tracked and reported promptly.

As and when any suspicious transactions or any transaction whether within the permissible regulation limits but constituting an anomaly would be tracked and reported to FIU/BSE/SEBI/CDSL or concerned regulatory bodies.

For CDSL-"*Blng024900_fui"* file should be monitored for abnormal DP transactions on fortnightly basis or as and when received from CDSL. Any aberrations should be noted. Possibility of fraudulent or suspicious trades should be traced, inquired for and then reported to the concerned authority.

In terms of the PML Rules, intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri, New Delhi-110021.
Website: http://fiuindia.gov.in

Intermediaries shall carefully go through all the reporting requirements and formats enclosed with this circular. These requirements and formats are divided into two parts- Manual Formats and Electronic Formats. Details of these formats are given in the documents (Cash Transaction Report- version 1.0 and Suspicious Transactions Report version 1.0) which are also enclosed with this circular. These documents contain detailed directives on the compilation and manner/procedure of submission of the manual/electronic reports to FIU-IND. The related hardware and technical requirement for preparing reports in manual/electronic format, the related data files and data structures thereof are also detailed in these documents. Intermediaries, which are not in a position to

immediately file electronic reports, may file manual reports with FIU-IND as per the formats prescribed. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, intermediaries shall adhere to the following:
The Cash Transaction Report (CTR) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month. The Suspicious Transaction Report (STR) shall 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 shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion. The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND;
Utmost confidentiality shall be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address. No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported.
Intermediaries shall not put any restrictions on operations in the accounts where an STR has been made. Intermediaries and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.It is clarified that the registered intermediaries, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

8. AML Record keeping

i. ***STR Maintenance and confidentiality***

Confidentiality of STRs and other supporting documents will be maintained. Only law enforcement or regulatory authorities need be informed about it. Any request for STR information would not be entertained and request will be informed to FIU IND immediately. Separate filing for STRs will be maintained. Principal Officer will handle all requests related to it.

ii. ***Responsibility for AML records and SAR filing***

Principal Officer will be in charge of record keeping of STRs.

iii. ***Records required***

As part of our AML program, our firm will create and maintain STRs and CTRs and other relevant documentation about customer identity/verification. Such records will be maintained for at least ten years.

9. Ongoing training to Employees:

Principal Officer would be responsible to impart necessary training to employees. Employees will be sensitized of the requirements under PMLA and the procedures laid down by the member. It will be ensured that all the operating and management staff fully understands their responsibilities under PMLA for strict adherence to customer due diligence requirements from establishment of new accounts to transaction monitoring and reporting suspicious transactions to the FIU. Annually, training programmes would be imparted wherever required for new staff, front-line staff, sub-brokers, supervisory staff, controllers and product planning personnel, etc. Training may include written materials like pamphlets, audio/video Cds, in-person lectures and professional seminars. Employees of the compliance department should be asked to attend BSE/NSE/CDSL Compliance training program.

10. Audit/Testing of Anti Money Laundering Program.

The Anti Money Laundering program will be subjected to periodic audit specifically with regard to testing its adequacy to meet the compliance requirements. An internal auditor or any qualified professional will do the audit/testing. The report of such an audit/testing should be placed before the senior management for making suitable modifications/improvements in the AML program.

11. Employee conduct and Accounts

Employees conduct and accounts would be subjected to scrutiny under the principal officer. Supervisors and managers performance will be annually reviewed. In turn, principal officer's accounts and performance will be reviewed by Board of directors.

12. Confidential reporting of AML non-compliance

Any violation of firm's AML program should be reported to the principal officer, unless the violation implicates Principal Officer himself, in that case, the report should be forwarded to chairman of the board. Reports should be confidential and employee will face no retaliation for doing so.

13. Board of Directors Approval:

We have approved this AML program as reasonably designed to achieve and monitor our firm's ongoing compliance with the requirements of PMLA and the implementing regulations under it.

14. Investor Education

Implementation of AML/CFT measures requires intermediaries to demand certain information from investors which may be of personal nature or has 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 client with regard to the motive and purpose of collecting such information. There is, therefore, a need for intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. Intermediaries shall prepare specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme.

15 Reliance on third party for carrying out Client Due Diligence (CDD)

Registered intermediaries may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, it is clarified that the registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

16. Review of Policy

To be in compliance with PMLA obligations, the senior management of a registered intermediary shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Registered Intermediaries shall: issue a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements; ensure that the content of these Directives are understood by all staff members; regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures; adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF; undertake client due diligence ("CDD") measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction; have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and develop staff members' awareness and vigilance to guard against ML and TF

Client Signature: _____

RISK ASSESSMENT OF CLIENT IN TERMS OF PMLA 2002

Type of Client **(Please Tick)**	**Low Risk**	**Medium Risk**	**High Risk**	**PEP (Politically Exposed person)**	**CSC (Client of Special Category)**

Risk rating would change only if there is change in risk perception by us.

For **K.M.Jain Stock brokers Pvt Ltd**

Director/ Authorised Signatory

10th Jan. 08

To,
The Additional Director
Financial Intelligence Unit – India,
6th Floor, Hotel Samrat,
Chanakyapuri,
New Delhi –110 021.

Sir,
Sub: Formulation & Implementation of PMLA Provisions Under ANTI MONEY – LAUNDERING ACT, 2002
Enclosed herewith please find the following documents:
Formulated PMLA Provisions and its implementation under ANTI MONEY – LAUNDERING ACT, 2002 for our memberships at:

NSE (SEBI Reg. # INB 230990237)
BSE (SEBI Reg. # INB 010990232)
CDSL DP (SEBI Reg. # IN–DP–CDSL–156–2001)

This is for your information and records.
Thanking you,
Yours truly,
For K.M.Jain Stock Brokers Pvt. Ltd.

Director

NSE SEBI Reg. #INB 230990237
BSE SEBI Reg. #INB 010990232
CDSL SEBI Reg. #IN-DP-CDSL-156-2001

ADDENDUM TO PMLA POLICY- FOR NSE , BSE, MCX-SX ,CDSL
IMPLEMENTATION OF PMLA PROVISIONS- UNDER ANTI MONEY LAUNDERING ACT, 2002
The thrust for the implementation of Anti Money Laundering Policy should be on the following key aspects: Designation of a sufficiently senior person as 'Principal Officer' as required under the Prevention of Money Laundering Act.

Mr. Anand Jain has been appointed **principal offic**er vide intimation letter dtd. 31.01.07

Customer Due Diligence/KYC Standards
Cautious approach should be maintained while selection of clients. Introducer should be an existing client or acquainted to the broker. Client should be present 'in-person' while opening his account or else the official in charge should pay a visit to the client's place for verification. There should be complete adherence to the laid guidelines, circulars, operating instructions, etc. of the regulatory authorities.

KYC forms should be updated on regular intervals. Any changes/shortcomings should be reported to the clients and then the official in-charge should follow-up with the client to procure new documents.

Monitoring of transactions for detecting suspicious transactions
All transactions should be monitored from the Admin terminal on continuous basis. Special stress should be given on " T, TS & Z " Group scrip. Common aberrations should be noticed among trading patterns of client is w.r.t a) Cross deals in same scrip b) Abnormal volumes in a particular low traded scrip c) Capital gains

transfer/adjustment between two clients generally in illiquid counters d) trading activity of up-country clients.

All aberrations should be noted. Possibility of fraudulent or suspicious trades should be traced and inquired for.

Reporting of suspicious transactions
As and when any suspicious transactions or any transaction whether within the permissible regulation limits but constituting an anomaly would be tracked and reported to BSE/SEBI/CDSL or concerned regulatory bodies.

Ongoing training of employees
Employees of the compliance department should be asked to attend BSE/NSE? Compliance training program. Mr. Anand Jain has already attended the program. There should be one trained (capital market test qualified) employee for every five or less Ids per location.

Audit/Testing of AML Program
Regular Audits would also help detect and reduce frauds or dubious transactions.
In addition to appointment of a Principal Officer, drawing up of written procedures to implement PMLA provisions, KYC policy encompassing Customer Acceptance/Client Identification Program and Risk Categorization, the following procedures/systems should also be in place :

1. Monitoring of transactions and generation of alerts for identification of suspicious transactions
2. Analysis of such alerts generated
3. Use of complete KYC information including details of occupation and financial status at the time of analysing alerts and
4. Reporting of appropriate cases to FIU-IND

ANTI MONEY LAUNDERING ACT AND TERRORISM
Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed there-under- Master Circular on AML/CFT
The Prevention of Money Laundering Act, 2002 (PMLA) was brought into force with effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on July 01, 2005. Subsequently, SEBI issued necessary guidelines vide circular no. ISD/CIR/RR/AML/1/06 dated January 18, 2006 to all securities market intermediaries as registered under Section 12 of the SEBI Act, 1992. These guidelines were issued in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering standards. Compliance with these standards by all intermediaries and the country has become imperative for international financial relations.
As per the provisions of the Prevention of Money Laundering Act, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA. Such transactions include:
? All cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.
? All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
? All suspicious transactions whether or not made in cash.
The Guidelines laid down the minimum requirements and it was emphasised that the intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address concerns of Money Laundering and suspicious transactions undertaken by clients. All intermediaries were also advised to ensure that a proper policy framework as per the Guidelines on anti-money laundering measures is put into place and 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 Office of the Director-FIU, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi -

110021, India on an immediate basis.
The detailed procedure incorporating the manner of maintaining information and matters incidental thereto for SEBI registered intermediaries, under the prevention of Money Laundering Act, 2002 and the Rules made there-under and formats for reporting by the intermediaries were also issued subsequently vide circular reference no. ISD/CIR/RR/AML/2/06 dated March 20, 2006.
5. This Master circular consolidates all the requirements/obligations issued with regard to AML/CFT till December 15, 2008. This Circular is being issued to all the intermediaries as specified at para 2 above. The circular shall also apply to their branches and subsidiaries located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws and regulations permit. When local applicable laws and regulations prohibit implementation of these requirements, the same should be brought to the notice of SEBI. In case there is a variance in KYC/AML standards prescribed by SEBI and the regulators of the host country, branches/overseas subsidiaries of intermediaries are required to adopt the more stringent requirements of the two.
This Master circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, and Rule 7 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 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

7. All the registered intermediaries are directed to ensure compliance with the requirements contained in this Master Circular on an immediate basis. Stock exchanges and depositories are also directed to bring the contents of this circular to the attention of their member brokers/ depository participants and verify compliance during inspections.

Customer Due Diligence/KYC Standards

New customer acceptance procedures, inter alia, should include processes

a) To cover customer identification and verification depending on nature /status of the customer and kind of transactions that are expected by the customer.

b) To comply with guidelines issued by various regulators such as SEBI, RBI etc.

c) For clearly establishing identity of the client, verification of addresses, phone numbers and other details.

d) To obtain sufficient information in order to identify persons who beneficially own or control the trading account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by entity other than the client

e) For verifying the genuineness of the PAN provided by the client such as comparing with original PAN, checking details on the Income tax website etc.

f) To check original documents before accepting a copy.

g) Apart from the mandatory information specified by SEBI, members should ask for any additional information as deemed fit on case to case basis to satisfy themselves about the genuineness and financial standing of the client.

h) To check whether the client has any criminal background, whether he has been at any point of time been associated in any civil or criminal proceedings anywhere.

i) To check whether at any point of time he has been banned from trading in the stock market.

j) Reluctance on the part of the client to provide necessary information or cooperate in verification process could generate a red flag for the member for additional monitoring.

k) Clear processes for introduction of clients by members' employees.

l) Risk based KYC procedures should be adopted for all new clients.

m) The information obtained through the above mentioned measures 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.

n) Factors of risk perception (in terms of monitoring suspicious transactions) of the client to be 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.

For existing clients processes should include

a) Review of KYC details of all the existing active clients in context to the PMLA 2002 requirements.

b) Classification of clients into high, medium or low risk categories based on KYC details, trading activity etc for closer monitoring of high risk categories etc.

c) Obtaining of annual financial statements from all clients, particularly those in high risk categories.

d) In case of non individuals additional information about the directors, partners, dominant promoters, major shareholders to be obtained.

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 KYC /client identification procedures have been specified and strengthened by SEBI from time to time. For example, SEBI vide its circular no. SMD-1/23341 dated November 18, 2003 laid down the mandatory requirement to obtain details of clients by brokers and formats of clients registration form and broker client agreements were specified vide circular no. SMD/POLICY/CIRCULARS/5-97 dated April 11, 1997. Subsequently in order to bring about uniformity in documentary requirements across different segments and exchanges as also to avoid duplication and multiplicity of documents, uniform documentary requirements for

trading across different segments and exchanges have been specified vide SEBI circular no/ SEBI/MIRSD/DPS-1/Cir-31/2004 dated August 26, 2004. Similarly KYC circulars with regard to depositories have been issued vide circulars no. SMDRP/Policy/Cir-36/2000 dated August 04, 2000, circular no. MRD/DOP/Dep/Cir-29/2004 dated August 24, 2004 and circular no. MRD/DoP/Dep/Cir-12/2007 dated September 7, 2007. Similarly prohibition on acceptance of cash from clients has been specified vide SEBI circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003.

- In order to further strengthen the KYC norms and identify every participant in the securities market with their respective PAN thereby ensuring sound audit trail of all the transactions, PAN has been made sole identification number for all participants transacting in the securities market, irrespective of the amount of transaction vide SEBI Circular reference MRD/DoP/Cir-05/2007 dated April 27, 2007, subject to certain exemptions granted under circular reference MRD/DoP/MF/Cir-08/208 dated April 03, 2008 and MRD/DoP/Cir-20/2008 dated June 30, 2008.
- All registered intermediaries should put in place necessary procedures to determine whether their existing/potential customer is a politically exposed person (PEP). Such procedures would include seeking additional information from clients, accessing publicly available information etc.
- All registered intermediaries are required to obtain senior management approval for establishing business relationships with Politically Exposed Persons. Where a customer has been accepted and the customer or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediaries shall obtain senior management approval to continue the business relationship.
- Registered intermediaries shall take reasonable measures to verify source of funds of clients identified as PEP.
- 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 documents 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 as stated earlier in this para. 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 objective should be to follow the requirements enshrined in the PML

Act, 2002 SEBI Act, 1992 and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.

- Every intermediary shall formulate and implement a client identification programme which shall incorporate the requirements of the Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. A copy of the client identification programme shall be forwarded to the Director, FIU- IND.
- It may be noted that while risk based approach may be adopted at the time of establishing business relationship with a client, no exemption from obtaining the minimum information/documents from clients as provided in the PMLA Rules is available to brokers in respect of any class of investors with regard to the verification of the records of the identity of clients.

Risk based approach:

Classify both the new and existing clients into high, medium or low risk category depending on parameters such as the customer's background, type of business relationship, transactions etc. Members should apply each of the customers due diligence measures on a risk sensitive basis and adopt an enhanced customer due diligence process for high-risk categories of customers and vice-á-versa.

Clients of special category (CSC)

Such clients include the following

a. Non resident clients

b. High net worth 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 members should exercise independent judgment to ascertain whether new clients should be classified as CSC or not

Monitoring & Reporting of Suspicious Transactions:

Ongoing monitoring of accounts is an essential element of an effective Anti Money Laundering framework. Such monitoring should result in identification and detection of apparently abnormal transactions, based on laid down parameters. Members should devise and generate necessary reports/alerts based on their clients profile, nature of business, trading pattern of clients for identifying and detecting such transactions. These reports/alerts should be analyzed to establish suspicion or otherwise for the purpose of reporting such 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:

i) Clients whose identity verification seems difficult or clients appear not to cooperate

ii) Substantial increase in activity without any apparent cause

iii) Large number of accounts having common parameters such as common partners / directors / promoters / address / email address / telephone numbers / introducers or authorized signatories;

iv) Transactions with no apparent economic or business rationale

v) Sudden activity in dormant accounts;

vi) Source of funds are doubtful or inconsistency in payment pattern;

vii) Unusual and large cash deposits made by an individual or business;

viii) Transfer of investment proceeds to apparently unrelated third parties;

ix) Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;

x) 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.;

xi) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;

xii) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;

xiii) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;

xiv) Purchases made on own account transferred to a third party through off market transactions through DP Accounts;

xv) Suspicious off market transactions;

xvi) Large deals at prices away from the market.

xvii) Accounts used as 'pass through'. Where no transfer of ownership of securities or trading is occurring in the account and the account is being used only for funds transfers/layering purposes.

xviii) Trading activity in accounts of high risk clients based on their profile, business pattern and industry segment.

Reporting of Suspicious Transactions:

Processes for alert generation, examination and reporting should include

? Audit trail for all alerts generated till they are reported to FIU / closed
? Clear enunciation of responsibilities at each stage of process from generation, examination, recording and reporting
? Escalation through the organization to the principal officer designated for PMLA
? Confidentiality of STRs filed
? Retention of records

Ongoing training to Employees:

Members should sensitize their employees of the requirements under PMLA and the procedures laid down by the member. Members are also required to ensure that all the operating and management staff fully understands their responsibilities under PMLA for strict adherence to customer due diligence requirements from establishment of new accounts to transaction monitoring and reporting suspicious transactions to the FIU. Members to organise suitable training programmes wherever required for new staff, front-line staff, sub-brokers, supervisory staff, controllers and product planning personnel, etc.

Intermediaries must have 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.

Audit/Testing of Anti Money Laundering Program.

The Anti Money Laundering program should be subject to periodic audit specifically with regard to testing its adequacy to meet the compliance requirements. The audit/testing may be conducted by member's own personnel not involved in framing or implementing the AML program or it may be done by a qualified third party. The report of such an audit/testing should be placed before the senior management for making suitable modifications/improvements in the AML program.

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 behavior.
- 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.
- More specifically, all the intermediaries shall put in place a system of maintaining proper record of transactions prescribed under Rule 3, notified under the Prevention of Money Laundering Act (PMLA), 2002 as mentioned below:

    (i) All cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;

    (ii) All series of cash transactions integrally connected to each other, which have been

valued below rupees ten lakh 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 lakh;

(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.

Information to be maintained

Intermediaries are required to maintain 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.

Retention of Records

- Intermediaries should take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PMLA Rules 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.
- As stated in para 5.5, intermediaries are required to formulate and implement the client identification program containing the requirements as laid down in Rule 9 and such other additional requirements that it considers appropriate. The records of the identity of 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.
- Thus 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.

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.

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. While determining suspicious transactions, intermediaries should be guided by definition of suspicious transaction contained in PML Rules as amended from time to time.
- 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.

- It is likely that in some cases transactions are abandoned/aborted by customers on being asked to give some details or to provide documents. It is clarified that intermediaries should report all such attempted transactions in STRs, even if not completed by customers, irrespective of the amount of the transaction.

Reporting to Financial Intelligence Unit-India

- In terms of the PMLA rules, intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

  Director, FIU-IND,

Financial Intelligence Unit-India,

6th Floor, Hotel Samrat,

Chanakyapuri,

New Delhi-110021.

Website: http://fiuindia.gov.in

- Intermediaries should carefully go through all the reporting requirements and formats enclosed with this circular. These requirements and formats are divided into two parts- Manual Formats and Electronic Formats. Details of these formats are given in the documents (Cash Transaction Report- version 1.0 and Suspicious Transactions Report version 1.0) which are also enclosed with this circular. These documents contain detailed guidelines on the compilation and manner/procedure of submission of the manual/electronic reports to FIU-IND. The related hardware and technical requirement for preparing reports in manual/electronic format, the related data files and data structures thereof are also detailed in these documents. Intermediaries, which are not in a position to immediately file electronic reports, may file manual reports to FIU-IND as per the formats prescribed. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, intermediaries 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 FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address.

(e) No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported

- Intermediaries should not put any restrictions on operations in the accounts where an STR has been made. Intermediaries and their directors, officers and employees (permanent and temporary) should be prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. Thus, it should be ensured that there is no tipping off to the client at any level.

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. Names, designation and addresses (including e-mail 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 higher position and is able to discharge his functions with independence and authority.

***Notices to be referred**:*

- *Other points that need to kept in mind by the compliance department are tabulated below in a comprehensive manner (source BSE notice of 31 Aug 07 # 28)*
- *The above applications must be adhered keeping in mind the following clarification/definitions as clarified by Ministry of Finance. [Notification No 13/2009/F.No. 6/8/2009- ES]*

G.S.R 816(E) - In exercise of the powers conferred by clauses (a), (b) and (c) of sub-section (1) of section 12 and section 15 read with clauses (h), (i), (j) and (k) of sub-section (2) of section 73 of the Prevention of Money-laundering Act, 2002 (15 of 2003), the Central Government, in consultation with the Reserve Bank of India, hereby makes the following rules further to amend the 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, namely:-

1. (1) These rules may be called the 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) Amendment Rules, 2009.

(2) They shall come into force on the date of their publication in the Official Gazette.

2. In the 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 (hereinafter referred to as the principal rules),-

in rule 2, in sub-rule(1), -

(a) after clause (c), the following clause shall be inserted, namely:-

'(ca) "non profit organisation" means any entity or organisation that is registered as a trust or a society under the Societies Registration Act, 1860 (21 of 1860) or any similar State legislation or a company registered under

section 25 of the Companies Act, 1956 (1 of 1956);';

(b) after clause (f), the following clause shall be inserted, namely:-
'(fa) "Regulator" means a person or an authority or a Government which is vested with the power to license, authorise, register, regulate or supervise the activity of banking companies, financial institutions or intermediaries, as the case may be;';

(c) for clause (g), the following clause shall be substituted, namely:-
'(g) "Suspicious transaction" means a transaction referred to in clause (h), including an attempted transaction, whether or not made in cash, which to a person acting in good faith -
(a) gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
(b) appears to be made in circumstances of unusual or unjustified complexity; or
(c) appears to have no economic rationale or bonafide purpose; or
(d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;'.

3. In the principal rules, in rule 3, in sub-rule (1), after clause (B), the following clause shall be inserted, namely:-
" (BA) all transactions involving receipts by non-profit organisations of value more than rupees ten lakh, or its equivalent in foreign currency;".

4. In the principal rules, in rule 5, for the words "the Reserve Bank of India or the Securities and Exchange Board of India, or the Insurance Regulatory Development Authority, as the case may be,", where ever they occur, the words, "its Regulator,", shall be substituted.

5. In the principal rules, for rule 6, the following rule shall be substituted, namely:-
"6. Retention of records of transactions– The records referred to in rule 3 shall be maintained for a period of ten years from the date of transactions between the client and the banking company, financial institution or intermediary, as the case may be.".

6. In the principal rules, in rule 7, for the words "the Reserve Bank of India or the Securities and Exchange Board of India, or the Insurance Regulatory Development Authority, as the case may be," where ever they occur, the words, "its Regulator,", shall be substituted;

7. In the principal rules, in rule 8,-

(a) in sub-rule (1), for the word, brackets and letters, "clauses (A) and (B)", the word, brackets and letters "clauses (A), (B) and (BA)" shall be substituted;

(b) after sub-rule (3), the following proviso shall be inserted at the end, namely:-
"Provided that a banking company, financial institution or intermediary, as the case may be, and its employees shall keep the fact of furnishing information in respect of transactions referred to in clause (D) of sub-rule (1) of rule 3 strictly confidential.".

8. In the principal rules, in rule 9,-

(a) for sub-rules (1) and (2), the following sub-rules shall be substituted, namely:-
"(1) Every banking company, financial institution and intermediary, as the case may be, shall,
(a) at the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship, and
(b) in all other cases, verify identity while carrying out:
(i) transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or
(ii) any international money transfer operations.

(1 A) Every banking company, financial institution and intermediary, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity.

(1 B) Every banking company, financial institution and intermediary, as the case may be, shall exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.

(1 C) No banking company, financial institution or intermediary, as the case may be, shall keep any anonymous account or account in fictitious names.

(2) Where the client is an individual, he shall for the purpose of sub-rule (1), submit to the banking company, financial institution and intermediary, as the case may be, one certified copy of an 'officially valid document' containing details of his identity and address, one recent photograph and such other documents including in respect of the nature of business and financial status of the client as may be required by the banking company or the financial institution or the intermediary, as the case may be.

Provided that photograph need not be submitted by a client falling under clause (b) of sub-rule (1).";

(b) after sub-rule (6), the following sub-rule shall be inserted, namely:-
"(6 A) Where the client is a juridical person, the banking company, financial institution and intermediary, as the case may be, shall verify that any person purporting to act on behalf of such client is so authorised and verify the identity of that person.";

(c) for sub-rule (7), the following sub-rule shall be substituted, namely:-
" (7) (i)The regulator shall issue guidelines incorporating the requirements of sub- rules (1) to (6A) above and may prescribe enhanced measures to verify the client's identity taking into consideration type of client, business relationship or nature and value of transactions.

(ii) Every banking company, financial institution and intermediary as the case may be, shall formulate and implement a Client Identification Programme to determine the true identity of its clients, incorporating requirements of sub-rules (1) to (6A) and guidelines issued under clause (i) above.

9. In the principal rules, in rule 10, for the words "the Reserve Bank of India or the Securities and Exchange Board of India, or the Insurance Regulatory Development Authority, as the case may be,", where ever they occur, the words, "its regulator,", shall be substituted;

- ***To all Intermediaries registered with SEBI under section 12 of the SEBI Act, 1992.(Through the stock exchanges for stock brokers, sub brokers and depositories for depository participants)***

Sub: Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of Securities Market Intermediaries under Prevention of Money Laundering Act, 2002 and Rules framed thereunder.

Dear Sir / Madam,

1. SEBI, vide Master Circular No. ISD/AML/CIR-1/2008 dated December 19, 2008, issued consolidated requirements/obligations to be fulfilled by all registered intertmediaries with regard to AML/CFT. In addition to the obligations contained in the Master Circular, following are the additional requirements to be fulfilled or

the clarifications with regard to existing requirements:
a. The illustrative list of 'Clients of Special Category' (CSC) as contained in the existing clause 5.4 (Page 16-17 of the
Master Circular) shall be read as under:
i. Non resident clients,

ii. High net-worth clients,
iii. Trust, Charities, NGOs and organizations receiving donations,
iv. Companies having close family shareholdings or beneficial ownership,
v. Politically exposed persons (PEP). 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/militaryofficers, senior executives of state-owned corporations, important political party officials, etc.The additional norms applicable to PEP as contained in the subsequent clause 5.5 (Page 19 of the MasterCircular) shall also be applied to the accounts of the family members or close relatives of PEPs,
vi. Companies offering foreign exchange offerings,
vii. Clients in high risk countries (where existence /effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, where there is unusual banking secrecy, Countries active in narcotics production, Countries wherecorruption (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,
viii. Non face-to-face clients,
ix. Clients with dubious reputation as per publicinformation available etc.
b. The following line is added in the existing clause 9.2 (Page 25 of the Master Circular): "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. The existing clause 10.2 (h) (Page 27 of the Master Circular) shall be read as: "Unusual transactions by CSCs and businesses undertaken by, offshore banks/financial services, businesses reported to be in the nature of export-import of small items."
d. The following line is added in the existing clause 10.3 (Page 27 of the Master Circular): "The Principal Officer/Money Laundering Control Officer and other appropriate compliance, risk management and related staff members shall have timely access to customer identification data and other CDD information, transaction records and other relevant information."
e. The following new clause numbered 10.5 is added after existing clause 10.4 (Page 27 of the Master Circular):"Clause 5.4(h) of the Master Circular categorizes clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'Clients of Special Category'. Intermediaries are directed that such clients 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."
f. The following new clause numbered 11.4 is added after the existing clause 11.3 (Page 29 of the Master Circular): "It is clarified that the registered intermediaries, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, should file STR if they have reasonable grounds to believe that the transactions involve proceeds of
crime."
g. The following line is added in the existing clause 12.1 (Page 30 of the Master Circular): "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."*
2. An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed in the United Nations website at http://www.un.org/sc/committees/1267/consolist.shtml. Registered intermediaries are directed that before opening any new account, it will be ensured that the name/s of the proposed customer does not appear in the list. Further, registered intermediaries shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts

bearing resemblance with any of the individuals/entities in the list should immediately be intimated to SEBI and FIU-IND. 3. All the registered intermediaries are directed to ensure compliance with the requirements contained in this circular on an immediate basis. Stock exchanges and depositories are also directed to bring the contents of this circular to the attention of their member brokers/ depository participants, verify compliance during inspections and take appropriate action under their respective Rules/Byelaws/ Regulations in case of any contravention/ non compliance of this circular or of SEBI Master Circular on AML/CFT.
4. This circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, and Rule 7 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, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

ANTI MONEY LAUNDERING / COMBATING FINANCING OF TERRORISM STANDARDS – MASTER CIRCULAR

Anti Money Laundering (AML) Standards/ Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Rules framed there under.

The Prevention of Money Laundering Act, 2002 (PMLA) was brought into force with effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on July 01, 2005.
As per the provisions of the PMLA, intermediary (includes a stockbroker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depositary participant, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with the securities market and registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) shall have to adhere to client account opening procedures and maintain records of such transactions as prescribed by the PMLA and Rules notified there under

SEBI has issued necessary directives vide circulars, from time to time, covering issues related to Know Your Client (KYC) norms, Anti- Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT). The directives lay down the minimum requirements and it is emphasized that the intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address concerns of money laundering and suspicious transactions undertaken by clients. Reference to applicable statutes and reporting guidelines for intermediaries is available at the website of the Financial Intelligence Unit – India (FIU-IND). Directives to all intermediaries under Section 12 of the SEBI Act are also issued in the context of compliance with the standards set by the Financial Action Task Force (FATF) on AML and CFT.

3. List of key circulars/directives issued with regard to KYC, CDD, AML and CFT Following is a list of key circulars on KYC/CDD/AML/CFT issued by SEBI from 1993:

	Circular Number	Date of circular	Subject	Broad area covered
1	CIR/MRD/DP/37/2010	December 14, 2010	Acceptance of third party address as correspondence address	Capturing of address other than that of the BO as the correspondence address.
2	CIR/MRD/DMS/13/2010	August 31, 2010	Guidelines on the Execution of Power of Attorney by the Client in favour of Stock Broker/ DP	Clarifications on the Execution of the POA by the client
3	CIR/MRD/DMS/13/2010	April 23, 2010	Guidelines on the Execution of Power of Attorney by the Client in favour of Stock Broker/ DP	Guidelines on the Execution of Power of Attorney by the Client
4	CIR/MRD/DP/11/2010	April 06, 2010	Master Circulars for Depositories	Opening of BO Accounts
5	CIR/ISD/AML/2/2010	June 14, 2010	Additional Requirements for AML/CFT	Additional Requirements on retention of documents, monitoring, tipping off, updation of records and other clarifications.
6	CIR/ISD/AML/1/2010	February 12, 2010	Master Circular – AML/CFT	Framework for AML/ CFT including procedures for CDD, client identification, record keeping & retention, monitoring and reporting of STRs

7	SEBI/MIRSD/Cir No.02/2010	January 18, 2010	Mandatory Requirement of in-person verification of clients.	In-person verification done for opening beneficial owner's account by a DP will hold good for opening trading account for a stock broker and vice versa, if the DP and the stock broker is the same entity or if one of them is the holding or subsidiary.
8	SEBI / IMD / MC No.1 /189241/ 2010	January 01, 2010	Master Circular for Mutual Funds	Compliance f h h with AML/CFT CDD directives of SEBI stipulated in Master Circular dated December 19, 2008
9	ISD/AML/CIR-2/2009	October 23, 2009	Directives on CFT under Unlawful Activities (Prevention) Act, 1967	Procedure to be followed for the freezing of assets of individual or entities engaged in terrorism
10	ISD/AML/CIR-1/2009	September 01, 2009	Additional AML/ CFT obligations of Intermediaries under PMLA, 2002 and rules framed	Additional AML/CFT requirements and clarifications thereon
11	ISD/AML/CIR-1/2008	December 19, 2008	Master Circular on AML/CFT directives	Framework for AML/CFT including procedures for CDD, client identification, record keeping & retention, monitoring and reporting of

12	MIRSD/DPS-III/130466/2008	July 2008 2,	In-Person verification of clients by stock-brokers	Responsibility of stock- brokers to ensure in- person verification by its own staff.
13	MRD/DoP/Cir- 20/2008	June 30, 2008	Mandatory Requirement of PAN	Exception for certain classes of persons from PAN being the sole identification number for all participants trading in the securities market.
14	F.No.47/2006/ISD/SR/122539	April 4, 2008	In-person verification of BO's when opening demat accounts	In-person verification to be carried out by staff of depository participant.
15	MRD/DoP/Cir- 20/2008	April 3, 2008	Exemption from Mandatory requirement of PAN.	Exemption for investors residing in the State of Sikkim from PAN being the sole identification number for trading in the securities market.
16	F.No.47- 2006/ISD/SR/11815 3/2008	February 22, 2008	In-Person verification of clients by depositories	clarification on various topics relating to 'in- person' verification of BOs at the time of opening demat accounts
17	MRD/DoP/Dep/Cir- 12/2007	September 7, 2007	KYC Norms for Depositories	Proof of Identity (POI) and Proof of Address (POA) for opening a Beneficiary Owner (BO) Account for
18	MRD/DoP/Cir- 05/2007	April 27, 2007	PAN to be the sole identification number for all transactions in the securities market	Mandatory requirement of PAN for participants transacting in the securities market.

18	ISD/CIR/RR/AML/2/06	March 20, 2006	PMLA- Obligations of intermediaries in terms of Rules notified there under	Procedure for maintaining and preserving records, reporting requirements and formats of reporting cash transactions and suspicious transactions
20	ISD/CIR/RR/AML/1/ 06	January 18, 2006	Directives on AML Standards	Framework for AML and CFT including policies and procedures, Client Due Diligence requirements, record keeping, retention, monitoring and reporting
21	SEBI/MIRSD/DPS- 1/Cir-31/2004	August 26, 2004	Uniform Documentary Requirements for trading	Uniform KYC documentary requirements for trading on different segments and exchanges
22	MRD/DoP/Dep/Cir- 29/2004	August 24, 2004	Proof of Identity (POI) and Proof of Address (POA) for opening a Beneficiary Owner	Broadening the list of documents that may be accepted as Proof of Identity (POI) and/or Proof of Address (POA) for the
23	SEBI/MRD/SE/Cir- 33/2003/27/08	August 27, 2003	Mode of payment and delivery	Prohibition on acceptance/giving of cash by brokers and on third party transfer of securities
24	SMDRP/Policy/Cir- 36/2000	August 4, 2000	KYC Norms for Depositories	Documentary requirements for opening a beneficiary account.

25	SMD/POLICY/CIRC ULARS/5-97	April 11, 1997	Client Registration Form	Formats of client Registration Form and broker clients agreements
26	SMD-1/23341	Nov. 18, 1993	Regulation of transaction between clients and members	Mandatory requirement to obtain details of clients by brokers.

This Master circular consolidates all the requirements/instructions issued by SEBI with regard to AML/CFT till January 31 2010 and supersedes the earlier circulars, dated September 01, 2009, December 19, 2008, March 20, 2006 and January 18, 2006 referenced at S.Nos. (10, 11, 19 and 20) respectively of the abovementioned table. This Master Circular is divided into two parts; the first part is an overview on the background and essential principles that concern combating money laundering (ML) and terrorist financing (TF). The second part provides a detailed account of the procedures and obligations to be followed by all registered intermediaries to ensure compliance with AML/CFT directives This Circular is being issued to all the intermediaries as specified at Para 2 above. The circular shall also apply to their branches and subsidiaries located abroad, especially, in countries which do not or insufficiently apply the FATF Recommendations, to the extent local laws and regulations permit. When local applicable laws and regulations prohibit implementation of these requirements, the same shall be brought to the notice of SEBI. In case there is a variance in CDD/AML standards prescribed by SEBI and the regulators of the host country, branches/overseas subsidiaries of intermediaries are required to adopt the more stringent requirements of the two.

This Master circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 (SEBI Act), and Rule 7 and Rule 9 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 (PML Rules) to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

5 Client Due Diligence

5.1 Elements of Client Due Diligence 5.2 Policy for acceptance of clients 5.3 Risk Based Approach 5.4 Clients of special category (CSC) 5.5 Client identification procedure

6 Record Keeping
7 Information to be maintained
8 Retention of Records
09 Monitoring of transactions
10 Suspicious Transaction Monitoring & Reporting
11 List of Designated Individuals/Entities
12 Procedure for freezing of funds, financial assets or economic resources or related services
13 Reports to Financial Intelligence Unit- India
14 Designation of an officer for reporting of suspicious transaction

15 Employees' Hiring/Training and Investor Education
16 Annexure- List of various Reports and their formats.

1.2 These Directives are intended for use primarily by intermediaries registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (SEBI Act). While it is recognized that a "one- sizefits-all" approach may not be appropriate for the securities industry in India, each registered intermediary shall consider the specific nature of its business, organizational structure, type of clients and transactions, etc. when implementing the suggested measures and procedures to ensure that they are effectively applied. The overriding principle is that they shall be able to satisfy themselves that the measures taken by them are adequate, appropriate and abide by the spirit of such measures and the requirements as enshrined in the PMLA.

2. Back Ground

The PMLA came into effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 1st July, 2005 by the Department of Revenue, Ministry of Finance, Government of India. The PMLA has been further amended vide notification dated March 6, 2009 and inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as prescribed in Section 12 A read with Section 24 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) will now be treated as a scheduled offence under schedule B of the PMLA.

As per the provisions of the PMLA, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under Section 12 of the SEBI Act , shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.
Such transactions include:

ˆ All cash transactions of the value of more than Rs 10 lakh or its equivalent in foreign currency. ˆ All series of cash transactions integrally connected to each other

which have been valued below Rs 10 lakh or its equivalent in foreign currency where such series of transactions take place within one calendar month. ˆ 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 registered intermediary. It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

In case there is a variance in CDD/AML standards prescribed by SEBI and the regulators of the host country, branches/overseas subsidiaries of intermediaries are required to adopt the more stringent requirements of the two.
3. Policies and Procedures to Combat Money Laundering and Terrorist financing
3.1 Essential Principles
3.1.1 These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed Directives in Part II have outlined relevant measures and procedures to guide the registered intermediaries in preventing ML and TF. Some of these suggested measures and procedures may not be applicable in every circumstance. Each intermediary shall consider carefully the specific nature of its business, organizational structure, type of client and transaction, etc.

to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit of the suggested measures in Part II and the requirements as laid down in the PMLA.

3.2 Obligation to establish policies and procedures

3.2.1 Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all intermediaries ensure the fulfillment of the aforementioned obligations.

3.2.2 To be in compliance with these obligations, the senior management of a registered intermediary shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Registered Intermediaries shall: issue a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements; ensure that the content of these Directives are understood by all staff members; regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures; adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF; undertake client due diligence ("CDD") measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction; have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and develop staff members' awareness and vigilance to guard against ML and TF

3.2.3 Policies and procedures to combat ML shall cover: Communication of group policies relating to prevention of ML and TF to all management and relevant staff that handle account information, securities transactions, money and client records etc. whether in branches, departments or subsidiaries; Client acceptance policy and client due diligence measures, including requirements for proper identification; Maintenance of records; .Compliance with relevant statutory and regulatory requirements; Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and Role of internal audit or compliance function to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF, 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. The internal audit function shall be independent, adequately resourced and commensurate with the size of the business and operations, organization structure, number of clients and other such factors.

PART - II DETAILED DIRECTIVES

4. Written Anti Money Laundering Procedures

4.1 Each registered intermediary shall adopt written procedures to implement the anti money laundering provisions as envisaged under the PMLA. Such procedures shall include inter alia, the following three specific parameters which are related to the overall 'Client Due Diligence Process':

Policy for acceptance of clients

Procedure for identifying the clients

Transaction monitoring and reporting especially Suspicious

Transactions Reporting (STR).

5. Client Due Diligence

5.1 The CDD measures comprise the following:

Obtaining sufficient information in order to identify persons who beneficially own or control the 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 shall 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 onwhose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

Verify the client's identity using reliable, independent source documents, data or information; Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted;

Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c); Understand the ownership and control structure of the client; 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 client, its business and risk profile, taking into account, where necessary, the client's source of funds; and Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

5.2 Policy for acceptance of clients:

5.2.1 All registered intermediaries shall develop client acceptance policies and procedures that aim to identify the types of clients that are likely to pose a higher than average risk of ML or TF. By establishing such policies and procedures, they will be in a better position to apply client due diligence on a risk sensitive basis depending on the type of client business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients: No account is opened in a fictitious / benami name or on an anonymous basis. 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 shall 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 Know Your Client (KYC) profile. Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.

Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures / KYC policies. This shall applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non genuine, or there is perceived non co-operation of the client in providing full and complete information. The market intermediary shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The market intermediary shall be cautious to ensure that it does not return securities of money that may be from suspicious trades. However, the market intermediary shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.

The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall 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 shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.

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.
(g) The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

5.3 Risk-based Approach

5.3.1 It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, the registered intermediaries shall apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries shall adopt an enhanced client due diligence process for higher risk categories of clients. Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that registered intermediaries shall obtain necessarily depend on the risk category of a particular client.

Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

5.4 Clients of special category (CSC):

Such clients include the following-

i. Non resident clients ii. High net-worth clients,
iii. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations

Companies having close family shareholdings or beneficial ownership Politically Exposed Persons (PEP) 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. The additional norms applicable to PEP as contained in the subsequent para 5.5 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs. Companies offering foreign exchange offerings 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. While dealing with clients in high risk countries where the existence/effectiveness of money laundering control is suspect, intermediaries 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.fatf- gafi.org), shall also independently access and consider other publicly available information. viii. Non face to face clients

ix. Clients with dubious reputation as per public information available etc. The above mentioned list is only

illustrative and the intermediary shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

5.5 Client identification procedure:

5.5 The KYC policy shall 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.

Intermediaries shall be in compliance with the following requirements while putting in place a Client Identification Procedure (CIP):

All registered intermediaries 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 shall 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 as outlined in clause 5.5 shall also be applicable where the beneficial owner of a client is a PEP. All registered intermediaries are required to obtain senior management approval for establishing business Relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediaries shall obtain senior management approval to continue the business relationship.
Registered intermediaries shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP".
The client shall be identified by the intermediary by using reliable sources including documents / information. The intermediary shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
The information must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the directives. Each original document shall be seen prior to acceptance of a copy. Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority within the intermediary

5.5.1 SEBI has prescribed the minimum requirements relating to KYC for certain classes of registered intermediaries from time to time as detailed in the table. 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 shall frame their own internal directives based on their experience in dealing with their clients and legal requirements as per the established practices. Further, the intermediary shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.

5.5.2 Every intermediary shall formulate and implement a CIP which shall incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and
intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. PML Rules have recently been amended vide notification No. 13/2009 dated November 12, 2009 and need to be adhered to by registered intermediaries.

5.3 It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to registered intermediaries (brokers, depository participants, AMCs etc.) from obtaining the minimum information/documents from clients as stipulated in
the PML Rules/SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by registered intermediaries. This shall be strictly implemented by all intermediaries and non-compliance shall attract appropriate sanctions.

6. Record Keeping

Registered intermediaries shall ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PMLA as well as other relevant legislation,
Rules, Regulations, Exchange Bye-laws and Circulars.

Registered Intermediaries 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.

Shall 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 shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:
the beneficial owner of the account;

the volume of the funds flowing through the account; and

for selected transactions:

the origin of the funds;
the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
the identity of the person undertaking the transaction;
the destination of the funds;
the form of instruction and authority.

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

More specifically, all the intermediaries shall put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:
all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh 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 lakh;
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;
all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

7. Information to be maintained

Intermediaries are required to maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:
the nature of the transactions;
the amount of the transaction and the currency in which it is denominated;
the date on which the transaction was conducted; and
the parties to the transaction.

8. Retention of Records

Intermediaries shall take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of ten years from the date of transactions between the client and intermediary.

As stated in sub-section 5.5, intermediaries are required to formulate and implement the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. The records of the identity of clients have to be maintained and preserved for a period of ten years from the date of cessation of transactions between the client and intermediary, i.e. the date of termination of an account or business relationship between the client and intermediary

Thus the following document retention terms shall be observed:

All necessary records on transactions, both domestic and international, shall be maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.

Records on client identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence shall also be kept for the same period.

8.4 In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed.

9. Monitoring of transactions

Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. This is possible only if the intermediary has an understanding of the normal activity of the client so that it can identify deviations in transactions / activities.
The intermediary shall 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 transactions which exceeds these limits. 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 shall be made available to auditors and also to SEBI/stock exchanges/FIUIND/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 the PMLA.

The intermediary shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director,FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities within the intermediary.

Further, the compliance cell of the intermediary shall randomly examine a selection of transactions undertaken by clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

10. Suspicious Transaction Monitoring & Reporting

Intermediaries shall ensure that appropriate steps are taken to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious transactions. While determining suspicious transactions, intermediaries shall be guided by the definition of a suspicious transaction contained in PML Rules as amended from time to time.

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:

Clients whose identity verification seems difficult or clients that appear not to cooperate Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
Clients based in high risk jurisdictions;
Substantial increases in business without apparent cause;
Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
Attempted transfer of investment proceeds to apparently unrelated third parties; Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services, businesses reported to be in the nature of export- import of small items.

Any suspicious transaction shall 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 shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall 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. The Principal Officer/Money Laundering Control Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information. It is likely that in

some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents. It is clarified that intermediaries shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

Clause 5.4(vii) of this Master Circular categorizes clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. Intermediaries are directed that such clients shall 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.

11. List of Designated Individuals/Entities

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at http://www.un.org/sc/committees/1267/consolist.shtml. Registered intermediaries are directed to ensure that accounts are not opened in the name of anyone whose name appears in said list. Registered intermediaries shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to SEBI and FIU-IND.

12. Procedure for freezing of funds, financial assets or economic resources or related services

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated August 27, 2009 detailing the procedure for the implementation of Section 51A of the UAPA. Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. The obligations to be followed by intermediaries to ensure the effective and expeditious implementation of said Order has been issued vide SEBI Circular ref. no: ISD/AML/CIR-2/2009 dated October 23, 2009, which needs to be complied with scrupulously.

13. Reporting to Financial Intelligence Unit-India

13.1 In terms of the PML Rules, intermediaries are required to reportinformation relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri, New Delhi-110021.
Website: http://fiuindia.gov.in

13.2 Intermediaries shall carefully go through all the reporting requirements and formats enclosed with this circular. These requirements and formats are divided into two parts- Manual Formats and Electronic Formats. Details of these formats are given in the documents (Cash Transaction Report- version 1.0 and Suspicious Transactions Report version 1.0) which are also enclosed with this circular. These documents contain detailed directives on the compilation and manner/procedure of submission of the manual/electronic reports to FIU-IND. The related hardware and technical requirement for preparing reports in manual/electronic format, the related data files and data structures thereof are also detailed in these documents. Intermediaries, which are not in a position to immediately file electronic reports, may file manual reports with FIU-IND as per the formats prescribed. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, intermediaries shall adhere to the following:

The Cash Transaction Report (CTR) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month. The Suspicious Transaction Report (STR) shall 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 shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion.
The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND; Utmost confidentiality shall be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address. No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported.

13.3 Intermediaries shall not put any restrictions on operations in the accounts where an STR has been made. Intermediaries and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.
It is clarified that the registered intermediaries, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

14. Designation of an officer for reporting of suspicious transactions

14.1 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 and shall have access to and be able to report to senior management at the next reporting level or 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.

15. Employees' Hiring/Employee's Training/ Investor Education

15.1 Hiring of Employees

The registered intermediaries shall have adequate screening procedures in place to ensure high standards when hiring employees. They shall 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.

15.2 Employees' Training

Intermediaries must have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements shall have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

15.3 Investors Education

Implementation of AML/CFT measures requires intermediaries to demand certain information from investors which may be of personal nature or has 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 client with regard to the motive and purpose of collecting such information. There is, therefore, a need for intermediaries to sensitize their clients about these requirements as
the ones emanating from AML and CFT framework. Intermediaries shall prepare specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme.

CIRCULAR
CIR/MIRSD/1/2014 March 12, 2014

To,

All Intermediaries registered with SEBI
(Through the stock exchanges for stock brokers and sub brokers,
Depositories for depository participants and
AMFI for Asset Management Companies)
Dear Sir/Madam,

Sub: Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Obligations of Securities Market Intermediaries under the Prevention of Moneylaundering Act, 2002 and Rules framed there under

Please refer to SEBI Master Circular CIR/ISD/AML/3/2010 dated December 31, 2010 on the captioned subject.

In view of the amendments to the Prevention of Money-laundering Act, 2002 (PML Act) and amendments to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 (PML Rules), it has been decided to make the following consequential modifications and additions to the above referred SEBI Master Circular dated December 31, 2010:

In clause 5 of Part II, after sub-clause 5.3.1, following sub-clause shall be inserted:

5.3.2 Risk Assessment

Registered intermediaries shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also

take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions (these can be accessed at http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml and http://www.un.org/sc/committees/1988/list.shtml).

The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and selfregulating bodies, as and when required.

In clause 5 of Part II, after sub-clause 5.5, following sub-clause shall be inserted:

5.6 Reliance on third party for carrying out Client Due Diligence (CDD)

Registered intermediaries may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.

Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, it is clarified that the registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

Record keeping requirements:

In sub-clause 8.1 of Part II regarding maintenance of records pertaining to transactions of clients: The words *"for a period of ten years"* shall be substituted with *"for a period of five years"*.

In sub-clause 8.2 of Part II regarding maintenance of records pertaining to identity of clients: The words *"The records of the identity of clients have to be maintained and preserved for a period of ten years from the date of cessation of transactions between the client and intermediary, i.e. the date of termination of an account or business relationship between the client and intermediary."* shall be substituted with the following:

"Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later."

Sub-clause 8.3 (b) of Part II shall be substituted with the following:

"Registered intermediaries shall maintain and preserve the record of documents evidencing the identity of its clients and beneficial owners (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later."

In sub-clause 9.2 of Part II regarding monitoring of transactions: The words *"preserved for ten years"* shall be substituted with *"maintained and preserved for a period of five years from the date of transaction between the client and intermediary"*.

In clause 8 of Part II, after sub-clause 8.4, following sub-clause shall be inserted -

8.5 Records of information reported to the Director, Financial Intelligence Unit - India (FIU-IND): Registered

intermediaries shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

In clause 14 of Part II, after sub-clause 14.1, following sub-clause shall be inserted:

14.2 Appointment of a Designated Director

i. In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:

"Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes —

the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,

the managing partner if the reporting entity is a partnership firm,

the proprietor if the reporting entity is a proprietorship concern,

the managing trustee if the reporting entity is a trust,

a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and

such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above."

ii. In terms of Section 13 (2) of the PML Act (as amended by the Prevention of Money-laundering (Amendment) Act, 2012), the Director, FIU-IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its AML/CFT obligations.

iii. Registered intermediaries shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, FIU-IND.

Registered intermediaries are directed to review their AML/CFT policies and procedures and make changes to the same accordingly. The other provisions specified in the SEBI Master Circular dated December 31, 2010 remain the same.

The Stock Exchanges and Depositories are directed to:

bring the provisions of this Circular to the notice of the Stock Brokers and Depository Participants, as the case may be, and also disseminate the same on their websites;
make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision in co-ordination with one another, as considered necessary;
monitor the compliance of this Circular through half-yearly internal audits and inspections; and
communicate to SEBI, the status of the implementation of the provisions of this Circular.

In case of Mutual Funds, compliance of this Circular shall be monitored by the Boards of the Asset Management Companies and the Trustees and in case of other intermediaries, by their Board of Directors.

This Circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and the Prevention of Moneylaundering (Maintenance of Records) Rules, 2005 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

This Circular is available on the SEBI website (www.sebi.gov.in) under the section SEBI Home > Legal Framework > Circulars.
Yours faithfully,

Krishnanand Raghavan
General Manager Email:

Securities and Exchange Board of India
CIRCULAR CIR/MIRSD/1/2014 March 12, 2014

To,
All Intermediaries registered with SEBI
(Through the stock exchanges for stock brokers and sub brokers,Depositories for depository participants and AMFI for Asset Management Companies)

Dear Sir/Madam,
Sub: Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Obligations of Securities Market Intermediaries under the Prevention of Moneylaundering Act, 2002 and Rules framed there under

1. Please refer to SEBI Master Circular CIR/ISD/AML/3/2010 dated December 31,2010 on the captioned subject.
2. In view of the amendments to the Prevention of Money-laundering Act, 2002 (PML Act) and amendments to the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 (PML Rules), it has been decided to make the following consequential modifications and additions to the above referred SEBI Master Circular dated December 31, 2010:

2.1. In clause 5 of Part II, after sub-clause 5.3.1, following sub-clause shall be inserted:

5.3.2 Risk Assessment

i. Registered intermediaries shall carry out risk assessment to identify,assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions

http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml and
http://www.un.org/sc/committees/1988/list.shtml).
ii. The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented,

updated regularly and made available to competent authorities and selfregulating bodies, as and when required.

2.2. In clause 5 of Part II, after sub-clause 5.5, following sub-clause shall be inserted:

5.6 Reliance on third party for carrying out Client Due Diligence (CDD)
i. Registered intermediaries may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.

ii. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, it is clarified that the registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

2.3. Record keeping requirements:
a. **In sub-clause 8.1 of Part II regarding maintenance of records pertaining to transactions of clients:**
The words *"for a period of ten years"* shall be substituted with *"for a period of five years"*.
b. **In sub-clause 8.2 of Part II regarding maintenance of records pertaining to identity of clients:**
The words *"The records of the identity of clients have to be maintained and preserved for a period of ten years from the date of cessation of transactions between the client and intermediary, i.e. the date of termination of an account or business relationship between the client and intermediary."* shall be substituted with the following:

"Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later."
c. **Sub-clause 8.3 (b) of Part II shall be substituted with the following:**

"Registered intermediaries shall maintain and preserve the record of documents evidencing the identity of its clients and beneficial owners (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later."

d. **In sub-clause 9.2 of Part II regarding monitoring of transactions:** The words *"preserved for ten years"* shall be substituted with *"maintained and preserved for a period of five years from the date of transaction between the client and intermediary"*.

e. **In clause 8 of Part II, after sub-clause 8.4, following sub-clause shall be inserted -**
8.5 Records of information reported to the Director, Financial Intelligence Unit - India (FIU-IND):
Registered intermediaries shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

2.4. In clause 14 of Part II, after sub-clause 14.1, following sub-clause shall be inserted:
14.2 Appointment of a Designated Director

i. In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a

Designated Director reads as under:
"Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes —
(i) the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,
(ii) the managing partner if the reporting entity is a partnership firm,
(iii) the proprietor if the reporting entity is a proprietorship concern,
(iv) the managing trustee if the reporting entity is a trust,
(v) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and
(vi) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above."

ii. In terms of Section 13 (2) of the PML Act (as amended by the Prevention of Money-laundering (Amendment) Act, 2012), the Director, FIU-IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its AML/CFT obligations.

iii. Registered intermediaries shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, FIU-IND.

3. Registered intermediaries are directed to review their AML/CFT policies and procedures and make changes to the same accordingly. The other provisions specified in the SEBI Master Circular dated December 31, 2010 remain the same.
4. The Stock Exchanges and Depositories are directed to:
a. bring the provisions of this Circular to the notice of the Stock Brokers and Depository Participants, as the case may be, and also disseminate the same on
their websites;
b. make amendments to the relevant bye-laws, rules and regulations for the implementation of the above decision in co-ordination with one another, as considered necessary;
c. monitor the compliance of this Circular through half-yearly internal audits and
inspections; and
d. communicate to SEBI, the status of the implementation of the provisions of this
Circular.
5. In case of Mutual Funds, compliance of this Circular shall be monitored by the
Boards of the Asset Management Companies and the Trustees and in case of other intermediaries, by their Board of Directors.
6. This Circular is being issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992 and the Prevention of Moneylaundering (Maintenance of Records) Rules, 2005 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
7. This Circular is available on the SEBI website (www.sebi.gov.in) under the section

Yours faithfully,
Krishnanand Raghavan
General Manager
Email: krishnanandr@sebi.gov.in

3. Appointment of a Designated Director

i. In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:
"Designated Director means a person designated by the reporting entity to ensure overall compliance with the

obligations imposed under chapter IV of the Act and the Rules and includes —
(i) the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,
(ii) the managing partner if the reporting entity is a partnership firm,
(iii) the proprietor if the reporting entity is a proprietorship concern,
(iv) the managing trustee if the reporting entity is a trust,
(v) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and
(vi) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above."

ii. In terms of Section 13 (2) of the PML Act (as amended by the Prevention of Money-laundering (Amendment) Act, 2012), the Director, FIU-IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its AML/CFT obligations.

iii. Registered intermediaries shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, FIU-IND.

24. Policy regarding Conflict of Interest
(Reference NSE notice # 29Aug 2013 24301)

A "conflict of interest" exists when a person's private interest interferes in any way with the interests of the firm. A conflict situation can arise when an employee, officer or partner takes actions or has interests that may make it difficult to perform firm work objectively and effectively. Conflicts of interest also may arise when

(a) an employee, officer or partner, or family member, receives personal benefits from third parties as a result of his or her position in the firm. For example, loans or guarantees of obligations of loans to employees and their family members may create conflicts of interest.
(b) It is almost always a conflict of interest for a firm employee to work simultaneously for a competitor, customer or supplier. You are not allowed to work for a competitor as a consultant or board member.
(c) Any employee who wishes to perform consulting services of any kind must inform and obtain prior approval from the partners. In no event may an employee perform consulting services for a competitor. Additionally, outside consulting is viewed as a conflict of interest for salaried employees who are expected to devote their professional efforts solely to the firm. The best policy is to avoid any direct or indirect business connection with our customers, suppliers or competitors, except on our behalf.
(d) Acceptance of gifts in a business relationship can also result in a conflict of interest. No gift or entertainment should ever be accepted by any firm employee, directly or indirectly through a family member or agent unless it: (1) is not a cash gift, (2) is consistent with customary business practices, (3) is not excessive in value, (4) cannot be construed as a bribe or payoff and (5) does not violate any laws or regulations. Please discuss with your supervisor any gifts or proposed gifts that you are not certain are appropriate. Any gift given or received that is valued in excess of Rs.1000 must be reported to the Compliance Officer.

Conflicts of interest are prohibited as a matter of firm policy, except under guidelines approved by the Partners. Conflicts of interest may not always be clear-cut, so if the employees have a question, they should consult with higher levels of management. Any employee, officer or partner who becomes aware of a conflict or potential conflict should bring it to the attention of a supervisor, manager or other appropriate personnel or consult the procedures described in Section 11 of this Code.

25. Policy on outsourcing of activities by Intermediaries

Guidelines on Outsourcing of Activities:

Though our organization –" K.M.Jain Stock Brokers Private Limited" is at present, not outsourcing any major intermediary activity, none the less we have formulated the policy keeping in mind the future needs of the organization within the guidelines set by SEBI and Exchanges.

Hence, in case of any outsourcing activity by our organization then we would keep in mind the following points while appointing a third party to overlook the functioning of the desired activity:

1. We will ensure high standards of service and exercise due diligence and ensure proper care in their operations.
2. We would outsource with a view to reduce cost substantially or for strategic reasons.
3. We would bear in mind that outsourcing activity through a third party may pose the following risks: operational risk, reputational risk, legal risk, country risk, strategic risk, exit-strategy risk, counter party risk, concentration and systemic risk. Such risks need to be mitigated to maximum possible extent.
4. We will follow the principles for outsourcing as laid down by SEBI in their Annexure I.
5. However the following activities shall not be outsourced- core business activities and compliance functions. A few examples of core business activities may be – execution of orders and monitoring of trading activities of clients in case of stock brokers; dematerialization of securities in case of depository participants; investment related activities in case of Mutual Funds and Portfolio Managers. Regarding Know Your Client (KYC) requirements, we shall comply with the provisions of SEBI {KYC (Know Your Client) Registration Agency} Regulations, 2011 and Guidelines issued there under from time to time.
6. Other Obligations that shall be incumbent upon us will be :
i. **Reporting To Financial Intelligence Unit (FIU) -** The intermediaries shall be responsible for reporting of any suspicious transactions / reports to FIU or any other competent authority in respect of activities carried out by the third parties.
ii. **Need for Self Assessment of existing Outsourcing Arrangements** – In view of the changing business activities and complexities of various financial products, intermediaries shall conduct a self assessment of their existing outsourcing arrangements within a time bound plan, not later than six months from the date of issuance of this circular and bring them in line with the requirements of the guidelines/principles.
7. **Reliance on third party for carrying out Client Due Diligence (CDD)**
i. We may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.
ii. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, we shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.