

K.M.Jain Stock Brokers Pvt Ltd

PMLA policy

Policy created by: Anand Jain – Compliance officer

Policy reviewed by: Madhulika Jain – Designated Director

Policy reviewed on: 01st January 2025

Policy approved by: Board of Directors

Policy approved on: 01st January 2025

**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)**

ANTI MONEY LAUNDERING POLICY

K.M. JAIN STOCK BROKERS PVT LTD-STOCK BROKER

**FOR NSE, BSE, MCX-SX & CDSL
POLICIES & PROCEDURES ADOPTED FOR PREVENTION OF MONEY LAUNDERING
(Issued as per the requirements of PMLA Act 2002)
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SEBI MASTER CIRCULAR

SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78

June 06, 2024


To,

1. All Intermediaries registered with SEBI under Section 12 of the Securities and Exchange Board of India Act, 1992
2. Stock Exchanges

Dear Sir/Madam,

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

1. The Prevention of Money Laundering Act, 2002 ("PMLA") and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules¹), as amended from time to time and notified by the Government of India, mandate every reporting entity [which includes intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992 (SEBI Act) and stock exchanges], to adhere to client account opening procedures, maintain records and report such transactions as prescribed therein to the relevant authorities. The PML Rules, inter alia, empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and the form in which such information is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by regulator for detecting the transactions specified in the PML Rules and for furnishing information thereof, in such form as may be directed by the regulator.
2. The enclosed guidelines stipulate the essential principles for combating Money Laundering (ML) and Terrorist Financing (TF) and provide detailed procedures and obligations to be followed and complied with by all the registered intermediaries.

3. These guidelines shall also apply to the branches of the Stock Exchanges, registered intermediaries, and their subsidiaries situated abroad, especially, in countries which do not apply or insufficiently apply the recommendations made by the Financial Action Task Force (FATF), to the extent local laws and regulations permit. When the local applicable laws and regulations prohibit implementation of these requirements, the same shall be brought to the notice of SEBI.
4. SEBI has from time to time issued circulars/directives with regard to Know Your Client (KYC), Client Due Diligence (CDD), Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) specifying the minimum requirements. It is emphasized that the registered intermediaries may, according to their requirements, specify additional disclosures to be made by clients to address the concerns of money laundering and suspicious transactions undertaken by clients.
5. On and from the issue of this Circular, the earlier circulars issued by SEBI on the subject of Anti-Money Laundering and Combating the Financing of Terrorism, listed out in the Appendix, shall stand rescinded. Notwithstanding such rescission, anything done or any action taken or purported to have been done or taken under the circulars specified in Appendix, shall be deemed to have been done or taken under the corresponding provisions of this Master Circular.
6. This Master Circular shall supersede the previous Master Circular reference no. SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023 and is available at www.sebi.gov.in under the link “Legal  Master Circulars”.

Yours faithfully,

Sapna Sinha
Deputy General Manager
Phone No. 022-26449748
Email id: sapnas@sebi.gov.in

K M Jain Stock Brokers Pvt Ltd – letter sent to FIU

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

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K M Jain Stock Brokers Private Limited has designed this Policy of PMLA and effective AML program to prohibit and actively prevent the money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities or flow of illegal money or hiding money to avoid paying taxes. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.

This Policy aims to set out the procedure that will be followed in our organization and its effective implementation thereafter.

Written Anti Money Laundering Procedures

We, M/s **K M Jain Stock Brokers Pvt Ltd** – registered as a Stock broker for BSE, NSE and MSEL under **SEBI Reg # INZ000223637** as well as Depository Participant of CDSL UNDER **SEBI REG # IN-DP-182-2016** shall adopt written procedures to implement the anti-money laundering provisions as envisaged under the PMLA. Such procedures shall include inter alia, the following four specific parameters which are related to the overall ‘Client Due Diligence Process’:

- i. Policy for acceptance of clients;
- ii. Procedure for identifying the clients;
- iii. Risk Management;
- iv. Monitoring of Transactions.

Background

Financial Intelligent Unit (FIU): The government of India set up Financial Intelligent Unit -India (FIU) on 18th November 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister. FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against Money laundering and related Crimes.

The Prevention of Money Laundering Act, 2002 (PMLA): The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance, and Government of India.

As per the provisions of PMLA and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules), as amended from time to time and notified by the Government of India, every reporting entity (which includes intermediaries registered under section 12 of the SEBI Act, i.e. a stock-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depository participant, merchant banker, portfolio manager, investment adviser and any other intermediary associated with the securities market and registered under Section 12 of the SEBI Act and stock exchanges), shall have to adhere to the client account opening procedures, maintenance records and reporting of such transactions as prescribed by the PMLA and rules notified there under.

The PML Rules empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and form in which it is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by the regulator for detecting the transactions specified in the PML Rules and for furnishing information thereof, in such form as may be directed by SEBI.

Policies and Procedures to Combat Money Laundering and Terrorist Financing

Essential Principles:

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 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 and the requirements as laid down in the PMLA and guidelines issued by the Government of India from time to time.

1. In case there is a variance in Client Due Diligence (CDD)/ Anti Money Laundering (AML) standards specified by SEBI and the regulators of the host country, branches/overseas subsidiaries of registered intermediaries are required to adopt the more stringent requirements of the two.
2. If the host country does not permit the proper implementation of AML/CFT measures consistent with the home country requirements, financial groups shall be required to apply appropriate additional measures to manage the ML/TF risks, and inform SEBI.

Client Due Diligence (CDD)

Client Due Diligence means due diligence carried out on a client referred to in clause (ha) of sub-section (1) of section 2 of the PMLA using reliable and independent sources of identification.

The CDD shall have regard to the money laundering and terrorist financing risks and the size of the business and shall include policies, controls and procedures, approved by the senior management, to enable the reporting entity to manage and mitigate the risk that have been identified by us. Our CDD measures comprise the following:

- i. 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 reliable and independent client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement;

- ii. Identifying the clients, verify their identity using reliable and independent sources of identification, obtain information on the purpose and intended nature of the business relationship, where applicable;
- iii. Verifying the client's identity using reliable, independent source documents, data or information. Where the client purports to act on behalf of juridical person or individual or trust, the registered intermediary shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person;
Provided that in case of a Trust, the reporting entity shall ensure that trustees disclose their status at the time of commencement of an account based relationship.
- iv. Identifying 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. The beneficial owner shall be determined as under-

- a) **where the client is a company**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.
- b) **Explanation where the client is a partnership firm**, the beneficial owner is the natural person(s) who, whether acting alone or together, or through one or more juridical person, has ownership of/ entitlement to more than ten percent of capital or profits of the partnership or who exercises control through other means.
- c) **where the client is an unincorporated association or body of individuals**, the beneficial owner is the natural person(s), who,

whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen per cent. of the property or capital or profits of such association or body of individuals;

d) where no natural person is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;

e) **Where the client is a trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with ten per cent or more interest in the trust, settlor, protector and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and

f) where the client or the owner of the controlling interest is an entity listed on a stock exchange in India, or it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions notified by the Central Government, or it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.

g) **Applicability for foreign investors:** For dealing with foreign investors', we are guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;

- v. Verifying 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 (iii);
- vi. Understanding the nature of business, ownership and control structure of the client;
- vii. Conducting 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 client's business and risk profile, taking into

- account, where necessary, the client's source of funds.
- viii. We shall review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be, when there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained client identification data.
 - ix. We shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process such that the information or data collected under client due diligence is kept up-to-date and relevant, particularly for high risk clients.
 - x. We shall register the details of a client, in case of client being a non-profit organization, on the DARPAN Portal of NITI Aayog, if not already registered, and maintain such registration records for a period of five years after the business relationship between a client and the registered intermediary has ended or the account has been closed, whichever is later.
 - xi. Where we are suspicious that transactions relate to money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the client, we shall not pursue the CDD process, and will instead file a STR with FIU-IND.

No transaction or account-based relationship shall be undertaken without following the CDD procedure.

Policy for acceptance of clients

We have a client acceptance policy and procedures that aim to identify the types of clients that are likely to pose a higher than average risk of ML or TF. The following safeguards are to be followed while accepting the clients:

- i. We shall not allow the opening of or keep any anonymous account or account in fictitious names or account on behalf of other persons whose identity has not been disclosed or cannot be verified;
- ii. 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;

- iii. The registered intermediaries shall undertake enhanced due diligence measures as applicable for Clients of Special Category (CSC). CSC shall include the following:
 - a) Non - resident clients;
 - b) High net-worth clients;
 - c) Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations;
 - d) Companies having close family shareholdings or beneficial ownership;
 - e) Politically Exposed Persons” (PEPs). PEP shall have the same meaning as given in clause (db) of sub-rule (1) of rule 2 of the PML Rules. The additional norms applicable to PEP as contained in the subsequent paragraph 20 of the master circular shall also be applied to the accounts of the family members or close relatives / associates of PEPs;
 - f) Clients in high risk countries. While dealing with clients from or situated in high risk countries or geographic areas or when providing delivery of services to clients through high risk countries or geographic areas i.e. places where existence or effectiveness of action against money laundering or terror financing is suspected, registered intermediaries apart from being guided by the FATF statements that inter alia identify such countries or geographic areas that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org) from time to time, shall also independently access and consider other publicly available information along with any other information which they may have access to. However, this shall not preclude registered intermediaries from entering into legitimate transactions with clients from or situated in such high risk countries and geographic areas or delivery of services through such high risk countries or geographic areas. The

intermediary shall specifically apply EDD measures, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF;

- g) Non face to face clients - Non face to face clients means clients who open accounts without visiting the branches/offices of the registered intermediaries or meeting the officials of the registered intermediaries. Video based customer identification process is treated as face-to-face onboarding of clients;
 - h) Clients with dubious reputation as per public information available etc.
- iv. 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.
 - v. We shall ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures. This shall apply in cases where it is not possible to ascertain the identity of the client, or the information provided to us to be non - genuine, or there is perceived non - co-operation of the client in providing full and complete information. We 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. We shall be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, we shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.
 - vi. 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 us 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.

- vii. 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.
- viii. The CDD process shall necessarily be revisited when there are suspicions of ML/TF.

Client identification procedure

Our KYC policy clearly spells out the client identification procedure (CIP) to be carried out at different stages i.e. while establishing relationship with our client or while carrying out transactions for the client or when having doubts regarding the veracity or the adequacy of previously obtained client identification data.

We shall comply with the following requirements while putting in place a CIP:

- i. We 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.
- ii. We will 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, we shall obtain senior management approval to continue the business relationship.
- iii. We shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.
- iv. The client shall be identified by us by using reliable sources including documents / information. We shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
- v. 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.

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

We have framed our own internal directives based on the experience in dealing with our clients and legal requirements as per the established practices.

Further, we shall conduct ongoing due diligence where if we notice 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.

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

We may rely on a third party for the purpose of -

- i. identification and verification of the identity of a client and
- ii. 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. In terms of Rule 9(2) of PML Rules:

- i. We shall immediately obtain necessary information of such client due diligence carried out by the third party;
- ii. We shall take adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;
- iii. We should be satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the Act;

- iv. The third party is not based in a country or jurisdiction assessed as high risk;
- v. We shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

Risk Management

Risk-based Approach

We have a Risk Based Approach (RBA) for mitigation and management of the identified risk and have policies approved by our senior management, controls and procedures in this regard. Further, we monitor the implementation of the controls and enhance them if necessary.

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, we apply each of the client due diligence measures on a risk sensitive basis. The basic principle behind this is to 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.

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.

Risk Assessment

We will carry out risk assessment to identify, assess and take effective measures to mitigate money laundering and terrorist financing risk with respect to our clients', countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. 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 self-regulating bodies, as and when required.

We shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and

existing products. We shall ensure:

- a. To undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies; and
- b. Adoption of a risk based approach to manage and mitigate the risks.

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.

Monitoring of Transactions

Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. Hence:

We shall pay special attention to all complex unusually large transactions / patterns which appear to have no economic purpose. We 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/FIU-IND/ other relevant Authorities, during audit, inspection or as and when required.

We shall apply client due diligence measures also to existing clients on the basis of materiality and risk, and conduct due diligence on such existing relationships appropriately. The extent of monitoring shall be aligned with the risk category of the client.

We 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, our compliance department 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.

Suspicious Transaction Monitoring and Reporting

We have and 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, we are 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:

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

Any suspicious transaction shall be immediately notified to the **Designated/Principal Officer** within our company. 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 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>**

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 Designated/ Principal 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. In such a situation we shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

For 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', appropriate counter measures are applicable. 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.

Red Flag Indicators for AML-CTF - It is essential to be aware of suspicious activities. Red flag indications help companies detect and report suspicious activities easier. It helps the Money Laundering Reporting Officers (MLRO) to categorize suspicious activities and help them write Suspicious Activity Report (SAR) and report to the Financial Crimes Enforcement Network (FinCEN) if necessary. The Financial Action Task Force (FATF) also highlighted the importance of red flags.

Record Management

Information to be maintained

We shall maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:

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

Record Keeping

We shall ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made thereunder, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Byelaws and Circulars.

We 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 behaviour.

In case of any suspected 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, we shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:

- i. the beneficial owner of the account;
- ii. the volume of the funds flowing through the account; and
- iii. for selected transactions:
 - a. the origin of the funds
 - b. the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
 - c. the identity of the person undertaking the transaction;
 - d. the destination of the funds;
 - e. the form of instruction and authority.

We 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 thereunder PMLA, other relevant legislations, Rules and Regulations or Exchange byelaws or circulars.

We shall put in place a system of maintaining proper record of the nature and value of transactions which has been prescribed under Rule 3 of PML Rules as mentioned below:

- i. all cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;
- ii. all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency;

However, for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

- iii. all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;
- iv. all suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non-monetary account such as demat account, security account maintained by the registered intermediary.

In a situation where we do not have records of the identity of its existing clients, we shall obtain the records forthwith or else we shall close the account of the clients after giving due notice to the client.

Retention of Records

We 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. We shall maintain and preserve records for a period of **eight** years from the date of transactions of our client.

Records evidencing the identity of our clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of eight years after the business relationship ends with our client or the account has been closed, whichever is later.

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.

We shall maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU – IND, as required under Rules 7 and 8 of the PMLRules, for a period of Eight years from the date of the transaction of our client.

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

We will ensure that in terms of Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA) and amendments thereto, we do not have any accounts in the name of individuals/entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC).

In order to ensure expeditious and effective implementation of the provisions of Section 51A of UAPA, Government of India has outlined a procedure through an order dated February 02, 2021 ([Annexure 1](#)) for strict compliance. These guidelines have been further amended vide a Gazette Notification dated June 08, 2021 ([Annexure 2](#)). Corrigendum's dated March 15, 2023 and April 22, 2024 have also been issued in this regard ([Annexure 3](#)) and ([Annexure 4](#)). The list of Nodal Officers for UAPA is available on the website of MHA.

Procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 – Directions to stock exchanges and registered intermediaries

The Government of India, Ministry of Finance has issued an order dated January 30, 2023 vide F. No. P-12011/14/2022-ES Cell-DOR (“the Order”) detailing the procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 (“WMD Act”). The Order may be accessed by clicking on [DoR_Section_12A_WMD.pdf](#).

In terms of Section 12A of the WMD Act, the Central Government is empowered as under:

“(2) For prevention of financing by any person of any activity which is prohibited under the WMD Act, or under the United Nations (Security Council) Act, 1947 or any other relevant Act for the time being in force, or by an order issued under any such Act, in relation to weapons of mass destruction and their delivery systems, the Central Government shall have power to—

(a) Freeze, seize or attach funds or other financial assets or economic resources—

- (i) owned or controlled, wholly or jointly, directly or indirectly, by such person; or*
- (ii) held by or on behalf of, or at the direction of, such person; or*
- (iii) derived or generated from the funds or other assets owned or controlled, directly or indirectly, by such person;*

(b) prohibit any person from making funds, financial assets or economic resources or related services available for the benefit of persons related to any activity which is prohibited under the WMD Act, or under the United Nations (Security Council) Act, 1947 or any other relevant Act for the time being in force, or by an order issued under any such Act, in relation to weapons of mass destruction and their delivery systems.

(3) The Central Government may exercise its powers under this section through any authority who has been assigned the power under sub-section (1) of section 7.”

Hence we are directed to comply with the procedure laid down in the said Order.

We shall:

- (i) Maintain the list of individuals/entities (“**Designated List**”) and update it, without delay, in terms of paragraph 2.1 of the Order;
- (ii) verify if the particulars of the entities/individual, party to the financial transactions, match with the particulars of the Designated List and in case of match, stock exchanges and registered intermediaries shall not carry out such transaction and shall immediately inform the transaction details with full particulars of the funds, financial assets or economic resources involved to the Central Nodal Officer (“CNO”), without delay. The details of the CNO are as under:

The Director

FIU-INDIA

Tel.No.:011-23314458, 011-23314459 (FAX)

Email: dir@fiuindia.gov.in

- (iii) run a check, on the given parameters, at the time of establishing a relation with a client and on a periodic basis to verify whether individuals and entities in the Designated List are holding any funds, financial assets or economic resources or related services, in the form of bank accounts, stocks, insurance policies etc. In case, the clients’ particulars match with the particulars of Designated List, stock exchanges and registered intermediaries shall immediately inform full particulars of the funds, financial assets or economic resources or related services held in the form of bank accounts, stocks or insurance policies etc., held on their books to the CNO, without delay;
- (iv) send a copy of the communication, mentioned in paragraphs 59(ii) and 59(iii) above, without delay, to the Nodal Officer of SEBI. The

communication shall be sent to SEBI through post and through email (sebi_uapa@sebi.gov.in) to the Nodal Officer of SEBI, Deputy General Manager, Division of FATF, Market Intermediaries Regulation and Supervision Department, Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051;

- (v) prevent such individual/entity from conducting financial transactions, under intimation to the CNO, without delay, in case there are reasons to believe beyond doubt that funds or assets held by a client would fall under the purview of Section 12A (2)(a) or Section 12A(2)(b) of the WMD Act;
- (vi) file a Suspicious Transaction Report (STR) with the FIU-IND covering all transactions in the accounts, covered under paragraphs 59(ii) and (iii) above, carried through or attempted through.

Upon the receipt of the information above, the CNO would cause a verification to be conducted by the appropriate authorities to ensure that the individuals/entities identified are the ones in the Designated List and the funds, financial assets or economic resources or related services, reported are in respect of the designated individuals/entities. In case, the results of the verification indicate that the assets are owned by, or are held for the benefit of, the designated individuals/entities, an order to freeze these assets under section 12A would be issued by the CNO and be conveyed to the concerned reporting entity so that any individual or entity may be prohibited from making any funds, financial assets or economic resources or related services available for the benefit of the designated individuals/entities.

List of Designated Individuals/ Entities

Our company shall refer the lists of designated individuals/terrorists, as and when communicated by SEBI.

All orders under section 35 (1) and 51A of UAPA relating to funds, financial assets or economic resources or related services, circulated by SEBI from time to time shall be taken note of for compliance.

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 <https://press.un.org/en/content/press-release>. The details of the lists are as under:

- i. The "ISIL (Da'esh) & Al-Qaida Sanctions List", which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at: <https://www.un.org/securitycouncil/sanctions/1267/press-releases> ;
- ii. The list issued by United Security Council Resolutions 1718 of designated Individuals and Entities linked to Democratic People's Republic of Korea www.un.org/securitycouncil/sanctions/1718/press-releases.

Our company and its employees will ensure that accounts are not opened in the name of anyone whose name appears in said list. For this purpose we will maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis.

We will implement effective tools for implementation of name screening to meet the sanctions requirements.

We shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions carried through or attempted in the accounts covered under the list of designated individuals/entities under Section 35 (1) and 51A of UAPA.

Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to the Central [designated] Nodal Officer for the UAPA, at Fax No.011-23092551 and also conveyed over telephone No. 011-23092548. The particulars apart from being sent by post shall necessarily be conveyed on email id: jsctcr-mha@gov.in.

We shall also send a copy of the communication mentioned above to the UAPA Nodal Officer of the State/UT where the account is held and to SEBI and FIU-IND, without delay. The communication shall be sent to SEBI through post and through email (sebi_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Deputy General Manager, Division of FATF, Market Intermediaries Regulation and Supervision Department, Securities and Exchange Board of India, SEBI Bhavan II, Plot No.C7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051. The consolidated

list of UAPA Nodal Officers is available at the website of Government of India, Ministry of Home Affairs.

Jurisdictions that do not or insufficiently apply the FATF Recommendations

We will refer SEBI circulars to identify countries, which do not or insufficiently apply the FATF Recommendations and will take into account the risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statements.

Reporting to Financial Intelligence Unit-India

In terms of the PML Rules, registered 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, Tower-2, Jeevan Bharati Building,
Connaught Place, New Delhi-110001, INDIA
Telephone : 91-11-23314429, 23314459
91-11-23319793(Helpdesk) Email:helpdesk@fiuindia.gov.in
(For FINnet and general queries)
ctrcell@fiuindia.gov.in
(For Reporting Entity / Principal Officer registration related queries)
complaints@fiuindia.gov.in
Website: <http://fiuindia.gov.in>

We shall carefully go through all the reporting requirements (https://www.sebi.gov.in/sebi_data/commondocs/jun-2024/Brochures_on_FIU_p.pdf) and formats that are available on the website of FIU – IND under the Section Home - FINNET 2.0 – User Manuals and Guides -Reporting Format (https://www.sebi.gov.in/sebi_data/commondocs/jun-2024/Reporting_Format_p.pdf). These documents contain detailed directives on the compilation and manner/procedure of submission of the reports to FIU-IND.

The related hardware and technical requirement for preparing reports, the related data files and data structures thereof are also detailed in these documents. While

detailed instructions for filing all types of reports are given in the instructions part of the related formats, registered intermediaries shall adhere to the following:

- i. The Cash Transaction Report (CTR) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month;
- ii. 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 on being satisfied that the transaction is suspicious, furnish the information promptly in writing by fax or by electronic mail to the Director in respect of transactions referred to in clause (D) of sub-rule (1) of rule 3 of the PML Rules. 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;
- iii. The Non Profit Organization Transaction Reports (NTRs) for each shall be submitted to FIU-IND by 15th of the succeeding month;
- iv. The Principal Officer will be responsible for timely submission of CTR, STR and NTR to FIU-IND;
- v. Utmost confidentiality shall be maintained in filing of CTR, STR and NTR to FIU-IND;
- vi. No NIL reporting needs to be made to FIU-IND in case there are no cash/suspicious/non-profit organization transactions to be reported;
- vii. "Non-profit organization" means any entity or organisation, constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income-tax Act, 1961 (43 of 1961), 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 the section 8 of the Companies Act, 2013 (18 of 2013);
- viii. Every registered intermediary, its Directors, officers and all employees shall ensure that the fact of maintenance referred to in Rule 3 of PML Rules and furnishing of information to the Director is kept confidential.

Provided that nothing in this rule shall inhibit sharing of information under Rule 3A of PML Rules of any analysis of transactions and activities which appear

unusual, if any such analysis has been done.

We shall not put any restrictions on operations in the accounts where an STR has been made. Registered 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.

We shall, 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 we have reasonable grounds to believe that the transactions involve proceeds of crime. The "proceeds of crime" will include property not only derived or obtained from the scheduled offence but also any property which may directly or indirectly be derived or obtained as a result of any criminal activity relating to the scheduled offence. Confidentiality requirement does not inhibit information sharing among entities in the group.

Designation of officers for ensuring compliance with provisions of PMLA

Appointment of a Principal Officer:

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.

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-IND. In terms of Rule 2 (f) of the PML Rules, the definition of a Principal Officer reads as under:

Principal Officer means an officer designated by a registered intermediary; Provided that such officer shall be an officer at the management level.

Appointment of a Designated Director:

K M Jain Stock brokers Pvt Ltd has appointed – Ms Madhulika Jain as Designated Director. (Appointed on 14.03.2014 by the company)

Designated director shall ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes –

- a) the Managing Director or a Whole-Time Director duly authorized by the Board of Directors if the reporting entity is a company,
- b) the managing partner if the reporting entity is a partnership firm,
- c) the proprietor if the reporting entity is a proprietorship firm,
- d) the managing trustee if the reporting entity is a trust,
- e) 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
- f) 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”.

In terms of Section 13 (2) of the PMLA, 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. Registered intermediaries shall communicate the details of the Designated Director, such as, name designation and address to the Office of the Director, FIU – IND.

Hiring and Training of Employees and Investor Education

Our Company has adopted adequate screening procedures in place to ensure high standards when hiring employees. We ensure that they are capable to perform their duties and competent enough to handle issues pertaining to the risk of money laundering and terrorist financing.

Training of Employees: We have an ongoing employee training program so that

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.

Investor Education: Our company is considerate to the personal information provided by our clients and it is our duty to sensitize our about these requirements particularly emanating from AML and CFT framework.

Repeal and Savings

After the issue of SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78, June 06, 2024 the circulars listed out in the Appendix to this Circular shall stand rescinded.

Review of Policy

To be in compliance with PMLA obligations, the senior management 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. 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; to ensure that the content of these Directives are understood by all staff members; regularly review the policies and procedures on an annual basis 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

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**

Board of Management- Director