

**POLICY**  
**ON**  
**ANTI MONEY LAUNDERING**  
**FOR**  
**STOCK BROKING**  
**AND**  
**DP OPERATIONS**

***Adopted By:***

**Smart Equity Brokers Pvt. Ltd.**

**(Member of NSE, BSE and DP of NSDL)**

## **1. Background:**

Pursuant to the recommendation made by the Financial Action Task Force Money on Anti Money Laundering standards, SEBI had issue the guidelines on Anti Money Laundering standards vide their notification no. ISD/CIR/RR/AML/1/6 dated 18th January 2006 and vide letter no. ISD/CIR/RR/AML/2/6 dated 20th March 2006 had issue the obligation of Intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992. As per the SEBI guidelines, all Intermediaries have been advice to ensure that proper policy frameworks are put in place as per the guidelines on Anti Money Laundering standards notify by SEBI.

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

Money Laundering can be defined as engaging in financial transactions that involve income derived from criminal activities, transaction designated to conceal the true origin of criminally derived proceeds and appears to have been received through legitimate sources/ funds.

This is done in below mentioned three phases

- Placement Phase
- Layering Phase
- Integration Phase

## **3. 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.

## **4. 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 transaction. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against Money laundering and related Crimes.

## **5. Terrorist Financing**

In order to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including

securities market intermediaries, we have establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing.

To be in compliance with these obligations, the senior management shall be fully committed to establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements.

(a) We review the content of these Directives and ensure that understood by all staff members;

(c) regularly review the policies and procedures on the prevention of money laundering and terrorist financing 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;

(d) adopt client acceptance policies and procedures which are sensitive to the risk of money laundering and terrorist financing;

(e) undertake client due diligence (“CDD”) measures to an extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of client, business relationship or transaction;

(f) have a system in place for identifying, monitoring and reporting suspected money laundering and terrorist financing transactions to the law enforcement authorities; and

(g) develop staff members’ awareness and vigilance to guard against money laundering and terrorist financing Policies and procedures to combat ML cover:

a. Communication of group policies relating to prevention of money laundering and terrorist financing to all management and relevant staff that handle account information, securities transactions, money and client records etc. whether in branches, departments or subsidiaries;

b. Client acceptance policy and client due diligence measures, including requirements for proper identification;

c. Maintenance of records;

d. Compliance with relevant statutory and regulatory requirements;

e. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and

f. 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.

## 6. Suspicious Transactions

**Suspicious Transactions** means a 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 the proceeds of crime; or
- (b) Appears to be made in circumstances of unusual or unjustified complexity; or
- (c) Appears to have no economic rationale or bonafide purpose.

### ➤ **Reasons for suspicious:**

- Identity of Client
- False identification documents
- Identification documents which could not be verified within reasonable time
- Non face to face client
- Client in high risk jurisdiction
- Doubt over the real beneficiary of the account
- Account opened with named very close to other established business entities
- Receipt back of welcome kit undelivered at the address given by the client

### ➤ **Suspicious Background**

- Suspicious background or links with known criminals

### ➤ **Multiple Accounts**

- Large number of accounts having a common account holder, introducer or authorized signatory with no rationale
- Unexplained transfers between multiple accounts with no rationale

### ➤ **Activity in Accounts**

- Unusual activity compared to past transactions
- Use of different accounts by client alternatively
- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared business
- Account used for circular trading

### ➤ **Nature of Transactions**

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Source of funds are doubtful
- Appears to be case of insider trading
- Investment proceeds transferred to a third party
- Transactions reflect likely market manipulations
- Suspicious off market transactions

### ➤ **Value of Transactions**

Value just under the reporting threshold amount in an apparent attempt to avoid reporting

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

## **7. Client / Customer Due Diligence (CDD):**

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

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

The Customer Due Diligence process includes three specific parameters:

- Policy for Acceptance of Clients
- Client Identification Procedure
- Suspicious Transaction identification and reporting

### **Client Acceptance Policy**

- a) The client account should not be opened in a fictitious / benami name or on an anonymous basis.
- b) Risk perception of the client need to defined having regarded to:
  1. Client's location (registered office address, correspondence addresses and other Addresses if applicable).
  2. Nature of business activity, tracing turnover etc. and
  3. Manner of making payment for transactions undertaken.
  - 4 The parameters of clients into Clients of special category (as given below) may be classified as higher risk and higher degree of due diligence and regular update of KYC profile should be performed.
- c) Documentation like KYC and Risk Disclosure Document and other information from different category of client prescribed by SEBI and any other regulatory authority to be collected depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act, 2002, guidelines issued by RBI and SEBI from time to time.
- (d) Ensure that a client account is not opened where the organization is unable to apply appropriate client's due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the organization is suspected to be non-genuine, perceived non-co-operation of the client in providing full and complete information. Discontinue to do business with such a person and file

a suspicious activity report. We can also evaluate whether there is suspicious trading in determining whether to freeze or close the account. Should be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, we can consult the relevant authorities in determining what action should be taken when it suspects suspicious trading.

- (e) We need to comply with adequate formalities when client is permitted to act on behalf of another person / entity. It should be clearly specified the manner in which the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. The rights and responsibilities of both the persons (i.e. the agent-client registered with Broker, as well as the person on whose behalf the agent is acting) should be clearly laid down. Adequate verification of a person's authority to act on behalf the customer should be carried out.
- (f) Necessary checks and balance to be put in 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.

**For new clients:**

- Each client should be met in person, before accepting the KYC. The client should be met at the Registered Office or any of the branch offices as per mutual convenience of the client and ourselves.
- Verify the PAN details on the Income Tax website.
- All documentary proofs given by the client should be verified with original.
- Documents like latest Income Tax returns, annual accounts, etc. should be obtained for ascertaining the financial status. If required, obtain additional information/document from the client to ascertain his background and financial status.
- Obtain complete information about the client and ensure that the KYC documents are properly filled up, signed and dated. Scrutinize the forms received at branch office thoroughly before forwarding it to RO for account opening.
- Ensure that the details mentioned in the KYC matches with the documentary proofs provided and with the general verification done by us.
- If the client does not provide the required information, then we should not open the account of such clients.
- As far as possible, a prospective client can be accepted only if introduced by AAL's existing client or associates or known entity. However, in case of walk-in clients, extra steps should be taken to ascertain the financial and general background of the client.
- If the account is opened by a PoA/Mandate Holder, then we need to clearly ascertain  
the relationship of the PoA/Mandate Holder with the client. Apply the KYC procedures to the PoA/Mandate Holder also.

- We should not open any accounts in fictitious / benami / anonymous basis.
- We should not open accounts where we are unable to apply appropriate KYC procedures.

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

- i. We rely on a third party, subject to the conditions that are specified in Rule 9 (2), of the PML Rules 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.

### **For existing clients :**

- Keep updating the financial status of the client by obtaining the latest Income Tax Return, Networth Certificate, Annual Accounts etc.
- Update the details of the client like address, contact number, demat details, bank details etc. In case, at any point of time, we are not able to contact the client either at the address or on the phone number, contact the introducer and try to find out alternative contact details.
- Check whether the client's identity matches with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any local enforcement / regulatory agency.

### **Role of Relationship Manager/Dealer/Corporate Settlement/Accounts Department**

- Ensure that there is no currency receipts/payment to the client.
- Ensure that there are no third party receipts into / payment from the clients account
- Ensure that any information gathered during formal or informal conversation with clients relating to Money Laundering is passed on to the Principal Officer through the Branch/Department Head

### **Client Information & Identity:**

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

- We should accept the client base on the risk they are likely to pose. The aim is to identify clients who are likely to pose a higher than average risk of money laundering or terrorist financing. For this purpose we need to classify the clients as low risk, medium risk and high risk clients. By classifying the clients, we will be in a better position to apply higher appropriate customer due diligence process. That is, for high risk client we have to apply higher degree of due diligence. The Factors of risk perception depend on client's location, nature of business activity, turnover, nature of transaction, manner of payment etc.

In order to achieve to achieve this objective, all clients of branch should be classified in the following category:

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

**Category A** Clients are those pose low or nil risk. They are good corporate/HINs have a respectable social and financial standing. These are the clients who make payment on time and take delivery of shares.

**Category B** Clients are those who are intra-day clients or speculative clients. These are the clients who maintain running account with Smart Equity Brokers Private Limited .

**Category C** Clients are those who have defaulted in the past, have suspicious background, do not have any financial status etc.

**Risk Based Approach:**

- 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 clients due diligence measures on a risk sensitive basis. We have adopted an enhanced client due diligence process for higher risk categories of clients, containing verifying income details, in person interview by official, revised income pattern. Conversely, a simplified client due diligence process 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.
- In order to tackle debarred entities, We shall also implement the policy to our Back Office Software for debarred entities in respect of the whom the Central/ State Government or any authority or the Exchange/ Depository has issued any advisory/notification.

**Risk Assessment:**

- We 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](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 self regulating bodies, as and when required.

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

CSC clients include the following:

- (i). Non-resident clients (NRI);
- (ii). High Net worth clients
- (iii). Trust, Charities, NGOs and organizations receiving donations.
- (iv). Politically exposed persons (PEP) of foreign origin:
- (v). Current /Former Head of State, Current or Former Senior High profile politicians and connected persons;
- (vi). Companies having closed shareholding/ownership/ dealing in foreign currency/shell companies/overseas entities/client in high risk countries (like Libya, Pakistan, Afganistan etc).
- (vii). Clients belonging to the countries where corruption/fraud level is high (like Nigeria, Burma etc)
- (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 we should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

## **8. 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.

Smart Equity Brokers Private Limited 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.

Further, the Compliance Department of the Smart Equity Brokers Private Limited 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/ Reporting:**

Smart Equity Brokers Private Limited 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:
  - a) Clients whose identity verification seems difficult or clients that appear 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 based in high risk jurisdictions;
  - d) Substantial increases in business without apparent cause;
  - e) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
  - f) Attempted transfer of investment proceeds to apparently unrelated third parties;
  - g) 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 Principal Officer. 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 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. This Policy 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.

## **9. Record Keeping:**

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. cash, cheques, etc

The identity of the person undertaking the transaction;

The destination of the funds;

The form of instruction and authority.

Organization should ensure that all client and transaction records and information are made available on a timely basis to the competent investigating authorities.

### **9.1 Retention of Records:**

The following document retention terms should be observed:

- (i). All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period of five years (5) from the date of cessation of the transaction.
- (ii) 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 ten years from the date of cessation of the transaction.
- (iii) Records shall be maintained in hard and soft copies.

The following document retention terms should be observed:

- (i) All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period of ten years (10) from the date of cessation of the transaction.

However, it should be ensured that there is continuity in dealing with the client as normal until told other wise 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

- (ii) 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 ten years from the date of cessation of the transaction.

(iii) Records shall be maintained in hard and soft copies.

## **10. Employees' Hiring/Employee's Training/ Investor Education:**

### **(i) Hiring of Employees:**

We will subject employee accounts to the same AML procedures as customer accounts, under the supervision of the Principal Officer. We will also review the AML performance of supervisors,

We shall have adequate screening procedures in place to ensure high standards when hiring employees, having regard to the risk of money laundering and terrorist financing and the size of the business, we ensure that all the employees taking up such key positions are suitable and competent to perform their duties.

### **(ii) Employees' Training:**

We have an ongoing employee training program conducted by our Principal Officer and Senior Management, Participation of all the Key Employees in the Seminars conducted by various Regulatory bodies from time to time, so that the members of the staff are adequately trained in AML and CFT procedures.

All the Circulars issued by various Regulatory bodies including that of PMLA, are circulated to all the staff Members and the same are also being discussed in length, in the Training Program". Training program shall have special emphasis on 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.

Our training will include, at a minimum: how to identify red flags and signs of money laundering that arise during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in the firm's compliance efforts and how to perform them; the firm's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

### **(iii) Investors Education:**

As the implementation of AML / CFT measures being sensitive subject and requires us to demand and collect certain information from investors which may be of personal in nature or has hitherto never been called for, which information include documents evidencing source of funds / income tax returns / bank records etc. and 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 us to sensitize the clients about these requirements, as the ones emanating from AML and CFT framework. We shall circulate the PMLA Circulars and other specific literature/ pamphlets etc. so as to educate the client

of the objectives of the AML/CFT program. The same shall also be emphasized on, in the Investor Awareness Programme conducted by us at frequent intervals of time. The importance of the same is also made known to them at the time of opening the Account.

**(iv) Monitoring Employee Conduct and Accounts:**

As part of their annual performance review, The Principal Officers accounts will be reviewed by the Board of Directors.

**Others:**

1. This policy is drafted by the Compliance Department of the Smart Equity Brokers Private Limited and reviewed and adopted by the Board of Directors in its meeting held on 3<sup>rd</sup> Day of September, 2016.
2. The PMLA policy must be reviewed and contain appropriate changes on a periodic of one year from the date of adoption or whenever the Company thinks necessary to change within one year.

**Designated Director and Principal Officer:**

Mr. Arun Khera, Director of the Company has been Designated to Principal Officer. Mr. Arun Khera is also the Designated Director of the Company.

In the Case of any further Information/clarification is required in this regards, the **“Principal Officer** “may be contacted.

**Mr. Arun Khera**  
**Smart Equity Brokers Private Limited**