

PMLA POLICIES

THE PREVENTION OF MONEY LAUNDERING ACT (PMLA) POLICY OR ANTI MONEY LAUNDERING PROCEDURES AS ADOPTED BY ISL FOR STOCK BROKING & DP OPERATIONS

(This is a policy document for guiding the operations of the organization. This Document is for internal use and not for circulation.)

INTRODUCTION

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. INANI SECURITIES LTD 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.

PART A: POLICY FOR ACCEPTANCE OF CLIENTS & RISK ASSESSMENT:

1. The Policy for acceptance of clients is based on the **perceived risk** and is in accordance with the **requirements of the Prevention of Money Laundering Act 2002 and the guidelines issued by RBI and SEBI from time to time**. The basic principle enshrined in the aforementioned approach is that the client due diligence measures on a **risk sensitive basis**, i.e., an enhanced client due diligence for high-risk categories of customers and conversely, a simplified client due diligence process for lower risk categories of customers.
2. Factors of risk perception (in terms of monitoring suspicious transactions) of the client shall 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. These parameters shall be used for classification of clients into low, medium and high risk.
3. Account shall not be opened:
 - If it not possible to ascertain the identity of the client.
 - If information provided is suspected to be non-genuine, perceived non-cooperation of the client in providing full and complete information.

4. If the account to be activated is with a name that is very close to any other established business entity and if the prospective client claims to have no relationship with the other entity, then a self-declaration stating the same shall be taken from the prospective client.
5. If at the time of establishing the intermediary – client relationship, it is suspected that the prospective client has a suspicious background or links with known criminals or is banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide; the account will not be activated. The prospective client's name shall also be compared with the list of people who are barred from dealing / trading as mentioned on the NSE / BSE / SEBI websites. If it is established that the prospective client is so barred then his /her account shall not be activated.
Moreover, a Self Declaration, stating that they have not been involved in any criminal offence and neither has been barred from dealing / trading by NSE/BSE/SEBI shall be taken from all clients.
6. No account will be opened in a fictitious / benami name or on an anonymous basis.
7. Carry out risk assessment of clients to identify, assess and take effective measures to mitigate money laundering and terrorist financing risk with respect to, 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/1988/list.shtml>)
8. 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.
9. No trading or demat account can be opened in the name of entity whose name is listed on the banned entity list being maintained at United Nation's website at & also as published on SEBI website & Exchange Websites.

PART B: CLIENTS IDENTIFICATION PROCEDURE:

1. The documentation requirements and other information required should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) for the identification of clients and shall be collected in respect of different classes of clients. On the basis of the perceived risk and after having regard to the requirements of the

Prevention of Money Laundering Act 2002 and the guidelines issued by RBI and SEBI from time to time the process for registration to be carried out.

2. Identification procedure is to be carried out at the following **3 stages**:
 - While establishing the intermediary – client relationship;
 - While carrying out transactions for the client;
 - When there are doubts regarding the veracity or the adequacy of previously obtained client identification data.
3. Documentation Requirements (as prescribed by **rule 9 of the Prevention of Money Laundering Rules, 2005**):
 - Where the client is an **individual**, he shall submit one certified copy of an officially valid document containing details of his permanent address or addresses, current address or addresses, and one copy of his recent photograph and such other documents including in respect of the nature of business and financial status of the client as may be required verifying the identity of the client.
 - Where the client is a **company**, it shall submit, certified copies of the following documents:
 - Certificate of incorporation;
 - Memorandum and Articles of Association;
 - A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; and
 - An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.
 - Where the client is a **partnership firm**, it shall submit certified copies of the following documents:
 - Registration certificate;
 - Partnership deed; and
 - An officially valid document in respect of the person holding an attorney to transact on its behalf.
 - Where the client is a **trust**, it shall, submit to the banking company, or the financial institution, or the intermediary three certified copies of the following documents:
 - Registration certificate;
 - Trust deed; and
 - An officially valid document in respect of the person holding an attorney to transact on its behalf.
 - Where the client is an **unincorporated association or a body of individuals**, it shall submit copies of the following documents:
 - Resolution of the managing body of such association or body of individuals;

- Power of attorney granted to him to transact on its behalf;
 - An officially valid document in respect of the person holding an attorney to transact on its behalf; and
 - Such information as may be required to establish the legal existence of such an association or body of individuals.
4. Sufficient information shall be obtained in order to identify persons who beneficially own or control securities account. If 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.
 5. Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the Principal Officer.
 6. Conduct of an ongoing due diligence and scrutiny of the transactions and client's account, throughout the course of the business relationship shall be done to ensure that the transactions being conducted are consistent with the client's business and risk profile, taking into account, where necessary, the customer's source of funds.
 7. The end clients should be advised to co-operate with us by providing the additional information / documents, if asked for during the course of your dealings with us to ensure the compliance requirements under this Act. Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority / Principal Officer.

PART C: IDENTIFICATION PROCEDURE OF BENEFICIAL OWNERSHIP:

As per SEBI Circular No. CIR/MIRSD/2/2013 dated on January 24, 2013, the uniform approach towards determination of beneficial ownership is as follows:

1. For clients other than individuals or trusts:

The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

Controlling ownership interest means ownership of/entitlement to:

- More than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;
- More than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
- More than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

2. For client which is a trust:

Where the client is a trust, the beneficial owners of the client shall be identified and reasonable measures be taken to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

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

ISL 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.

PART D: IDENTIFICATION OF CLIENTS OF SPECIAL CATEGORY (CSC):

Clients of Special Categories may include:

1. NRI / HNI / Trust / Charities / NGO / Organizations receiving donations
2. Companies having close family shareholdings or beneficial ownership.
3. Politically Exposed Persons
4. Companies offering foreign exchange offerings
5. 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 centre, tax havens, countries where fraud is highly prevalent.
6. Non face to face clients
7. Clients with dubious reputations as per public information available in public domain as Newspapers, Exchange websites, SEBI/FMC Website, List of SEBI debarred entities as updated from time to time, list of entities as available on <http://www.watchoutinvestors.in>.

* HNI Client here means the clients who have net worth or Holding securities exceeding Rs. 1 crore or doing the intraday trading volume of more than 2 Crore or daily delivery transactions more than Rs. 20 Lakhs.

PART E: RECORD KEEPING:

1. All necessary records pertaining to transactions of clients (namely financial statements, DP Account statements, Contract Notes, Statement of Securities etc) are maintained for the minimum period of 5 years as prescribed under the relevant Act (PMLA 2002, as well as SEBI Act 1992) and other legislations, Regulations or exchange bye-laws or circulars.
2. 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.
3. Records of information reported to the Director, Financial Intelligence Unit - India (FIU-IND) shall be maintained and preserved, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction.

PART F: RETENTION OF RECORDS:

The Company maintains and preserve records and information for the period as prescribed under relevant act and rules in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities, and, in case of ongoing investigations or transactions which have been the subject of STR, they shall be retained until it is confirmed that the case has been closed.

PART G: SUSPICIOUS TRANSACTIONS – MONITORING & REPORTING:

1. MONITORING TRANSACTIONS

- Threshold Trading limits / leverage to be given shall be established, for each class of clients, according to their net worth and the perceived risk.
- VOLUME OF TRADE TO BE CORRELATED WITH THE CLIENTS NETWORTH: If the volume of trade is inconsistent with the client's financial background, explanation should be sought by the client for the same. Failure by client to provide satisfactory explanation should be noted and reported to the Principal Officer.
- If after incurring a substantial loss, the client makes good the loss, details of the source from which the loss was made good shall be sought from the client. Failure by client to provide satisfactory explanation should be noted and reported to the Principal Officer.
- If there are large numbers of accounts having a common account holder, introducer or authorized signatory, explanation for the same shall be sought from the beneficial owner. If the client is not able to satisfactorily explain the rationale for the same, the fact shall be reported to the Principal Officer.

- RMS department should monitor the trading activity of the client and exercise due diligence to ensure that the trading activity of the client is not disproportionate to the financial status and the track record of the client.
- Payments department should ensure that payment received from the client is being received in time and through the bank account the details of which are given by the client in KYC form and the payment through cash / bearer demand drafts should not be entertained. If so, the banker cheque/ demand draft/ pay order should be accompanied with the name of bank account holder and the bank account number debited, duly certified by issuing bank.
- Following transactions shall be closely monitored:
 - Substantial increases in business without apparent cause.
 - Unexplained transfers between multiple accounts with no rationale.
 - Sudden activity in dormant accounts.
 - Activity inconsistent with what would be expected from declared business.
 - Clients based in high risk jurisdictions.
 - Unusual transactions by Clients of Special Categories (CSCs)
 - Sources of funds are doubtful or inconsistency in payment pattern.
- **Dealing with Politically Exposed Clients (PEP):**
 - In case we have reasons to believe that any of our existing / potential customer is a politically exposed person (PEP) we must exercise due diligence, to ascertain whether the customer is a politically exposed person (PEP), which would include seeking additional information from clients and accessing publicly available information etc.
 - The dealing staff must obtain senior management`s prior approval for establishing business relationships with Politically Exposed Persons. In case an existing customer is subsequently found to be, or subsequently becomes a PEP, dealing staff must obtain senior management`s approval to continue the business relationship.
 - We must take reasonable measures to verify source of funds of clients identified as PEP.
 - If it is established/ realized, while carrying out transaction for the client or at a later stage, that the client has a suspicious background or links with known criminals or is banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide; his / her transactions will be closely monitored.

2. REPORTING SUSPICIOUS TRANSACTIONS:

Procedure to be followed on identification of Suspicious Transaction: The Principal Officer shall analyze the transactions that are reported to him and on identifying any suspicious transaction; he shall record the reasons for arriving at such a conclusion and

intimate the same to the Financial Intelligence Unit, India (FIU-IND), within 7 working days of establishment of suspicion at the level of Principal Officer. However there would be continuity in dealing with the client, as normal, until told otherwise by the FIU authorities and the client would not be informed about his / her transactions being reported to the authorities.

PART H: APPOINTMENT OF PRINCIPAL OFFICER & DESIGNATED DIRECTOR:

Appointment of a Principal Officer

Mr. VIJAY KUMAR PATHAK has been appointed as Principal Officer of the organization in compliance with provisions as envisaged under the Anti Money Laundering Act, 2002, the Principal Officer analyzes the transactions that are reported to him and on identifying any suspicious transaction; the Principal Officer records the reasons for arriving at such a conclusion & in case finds anything suspicious, he is responsible for the reporting of the same to FIU.

Appointment of a Designated Director

In addition to the existing requirement of designation of a Principal Officer, Mr. LAKSHMIKANTH INANI is designated as 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules.

PART I: HIRING / EMPLOYEES TRAINING / INVESTOR EDUCATION:

1. HIRING:

We do adequate screening procedures while hiring employees and also ensure that the employees dealing with PMLA requirements are suitable and competent to perform their duties.

2. EMPLOYEES TRAINING:

We have ongoing training program conducted by our Principal Officer and Senior Management, Participation of all the key Employees/Associates 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. Also 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 has special emphasis on frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients.

3. INVESTOR EDUCATION:

Implementation of AML/CFT measures requires us to demand certain information from investor which may be of personal nature or which 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 customer with regard to the motive and purpose of collecting such

information. There is, therefore, a need to sensitize customers about these requirements as the ones emanating from AML and CFT framework. We can prepare specific literature/pamphlets etc. so as to educate the customer of the objectives of the AML/CFT programmed.

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.

POLICY FOR INTERNAL REVIEW AND OPERATIONS

INTERNAL CONTROL, RISK MANAGEMENT AND OTHER POLICIES

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I. CLIENT REGISTRATION

- A client is registered only after he had a meeting with the director / Sub broker / Authorized Person/Employee of the company.
- The Application forms for opening an account are issued only when the management is satisfied with the clients' financial capacity to trade in stock market and after the prospective client provides the valid reference & introducer for his account.
- Know your client form is duly accepted in compliance with the mandatory requirements specified by the SEBI & Exchange and processed further along with supporting documents with necessary proofs duly verified with original.
- In person verification is done by the Employee/Sub-Broker/Authorised Person of the company.
- The company has the policy of approval of all application forms by the Authorised persons of the company before allowing trading to applicant.
- Company has also advised its Associates to exercise proper diligence with respect to the client before introducing him to the organization and the final authority to approve client also vests with the Managing Committee of the company.
- All the KYC documents are finally stored at record centre which can be retrieved within 2-3 working days.

II. ORDER RECEIPT AND EXECUTION

- **Order Receipt:** Most of the times the client is entertained by the dealer who regularly deals with the client. The trades of clients are carried out in the respective client code only. The dealers take utmost care while executing the trades of the clients regarding the accuracy of Client Code, Quantity and Price etc. The orders from the client's are promptly executed by the dealers and the oral confirmation of the placement of the orders is immediately provided to the clients. Moreover, only registered clients are allowed to enter the dealing room for placing the orders
- **Mechanism for order management and execution:** The clients are divided into groups among the dealers and sub brokers at head office level, so that particular dealer can serve a particular group of clients which helps dealer to understand the client investment strategy in a better way & serve them accordingly. The orders are entered instantly by the dealer on the instruction given by the client. On execution of valid order into trade, dealers confirm the

trade with the client so as to avoid any future dispute. At the end of the trading hours, the dealer informs the clients about the execution of the orders placed by the clients. Also a trade confirmation SMS message covering details of all the trades executed is forwarded to client after completion of trading hours on registered Mobile Number of the client.

III. **SENDING CONTRACT NOTES, DAILY MARGIN STATEMENT, QUARTERLY STATEMENT OF ACCOUNTS TO CLIENTS**

- Printing of Contract notes is not centralized and is done at Head Office and only branch office. The same are dispatched within 24 Hrs of execution of trades.
- Company issues Physical as well as Electronic Contract notes (ECN) to its clients. The digitally signed ECN are emailed to respective clients on the same day of execution of trades on their email address which were provided by them at the time of opening an account with the company. The company maintains the dispatch log of the ECN.
- Client margin details are sent to all clients electronically on daily basis as digitally signed document. The dispatch log of the same is preserved.
- Statement of accounts of fund and securities is sent to all the clients in physical form & also as electronically signed digital document on quarterly basis within the time limit prescribed by the exchange. The proof/Logs of delivery are preserved.
- In case if the client wants to change his email address which was earlier provided by him at the time of opening an account with the company the same should be done by filling up the modification form mentioning the old as well as new email id.

IV. **RISK MANAGEMENT**

- **Collection of Pay-in, Margin, limits setting for exposures & turnover for clients, terminals, branches & sub-broker level:**
 - **Collection of Pay-in:** The Company takes standing instructions from most of its clients for maintaining running accounts for funds and also securities. The company has policy for transferring funds or securities to clients on periodic intervals or as and when client needs it. The client is expected to make payments for purchases and clear all debits before pay-in. ISL is authorized not to release securities purchased by the client unless the funds obligations have paid in full. In case ISL does not receive funds before due date (i.e. pay-in date) ISL will have all rights to sell the securities without any further intimation to client / associate.
 - **Margin collection:** The Company collects margin from the client in the form of money / securities or other property, which may be required to open and / or maintain his account so long as the client desires to avail of the services provided by ISL. The client's funds / shares lying in the margin account may be used by ISL for the purpose of placing same as margin with the exchange and / or Clearing Member, in any form ISL may deem fit. The amount of

security margin deposited with ISL is interest free and ISL shall have the right to adjust the same against any outstanding dues in client's account with ISL. In the event of closure of account with ISL, the balance of securities, deposit amounts (if any) shall be refunded only after all the transactions in client's accounts across segments are fully settled and / or intimation of closure in writing, whichever is later.

- **Limits setting for exposures & turnover for clients, terminals, branches & sub-broker level:** The ISL RMS system automatically sets individual client wise trading limits on the basis of client's available credit balance in ledger/ Margin account maintained with ISL & available Collaterals. These automatically set limits are subject to alteration by RMS team on the basis of past trading history & credentials of the client. In case of direct exchange terminals (NEAT/BOLT) the overall trading limit is set from the Admin terminal located in H.O. on the basis of availability of net credit of all the clients under the branch & branch margin.
- **Monitoring of Debit Balances:** The Company has a team to monitor all receivables and to do regular follow-ups with the clients. The debits in client's account are either secured against sub-broker's deposits or are secured against collaterals. The company has a policy not to transfer the securities of the client till the payment in respect thereof is received. The client is not allowed to do further trading unless the old dues are cleared.
- **Mechanism of pay-in and pay-out of securities:**
 - **Payin of Securities:** The Clients securities for particular pay-in obligation are received only from client's account. Also the company is a CDSL registered Depository Participant. If client's DP accounts are maintained with the company, auto pay-in of securities is done only for those clients from whom POA is obtained for pay-in obligations.
 - **Payout of Securities:** Pay-out of Securities is given to clients immediately after receipt of the same from the Exchange subject to clear balance in his / her ledger account maintained with us. However securities of clients received in payout are not transferred in case of specific instruction from client.
- **Payment, Receipt of funds from / to clients:**
 - The company takes standing instructions from its clients for maintaining running accounts for funds and also securities. The Company has policy for transferring funds to clients on periodic intervals or as and when client needs it. However, the company settles the funds at least once in a month or quarter as per the preference of the client.
 - The client is expected to make payments for purchases and clear all debits before pay-in. ISL is authorized not to release securities purchased by the client unless the funds obligations have been paid in full. In case ISL does not receive funds before due date (i.e. pay-in date) they will have all rights to sell the securities without any further intimation to client / associate.

- The cheque from / to the clients are accepted / issued only from / to the account for which the client has submitted the proof to the company. In case of any receipt from the accounts for which the proof is not available the same is demanded from the clients.

V. INVESTOR REDRESSAL MECHANISM

- The register of complaints is centrally maintained. The Company has a dedicated Customer Relation Team to monitor & redress complaints lodged with branches / sub-brokers. The Complaints received from clients through mail, letter at branches and sub-broker is forwarded to Head office through email, telephone or post to respective Customer Relation Manager where they are redressed on online basis. If the complaint is not resolved at this level, then it is forwarded to Compliance Department. The pending investor complaints and redressal at this level is monitored by the compliance officer. The analysis of such complaints is done by the management and preventive measures are taken and implemented.
- Complaints registered against the company and received through exchanges are redressed by Compliance Department and are recorded in the Register of Complaints.
- The Company has designated an exclusive e-mail ID to enable the investors to register their complaints and such ID has been displayed on the company's website and printed on KYC Form, Quarterly confirmation statement of funds and securities, Welcome kit etc.

VI. ALLOTMENT/SURRENDER OF TRADING TERMINALS, OPENING & CLOSING OF BRANCHES

- **Allotment / Surrender of Trading Terminals:** The trading terminals are provided to the dealer/s that is/are appointed by the Company or to the registered sub-brokers and authorized persons only. The Exchange compliance requirements regarding allotment of terminals is strictly adhered to while allotment of terminals. In case of any closure of Branch or Sub-broker, the entire user IDs allotted to that location are surrendered.
- **Opening & Closing of Branches:** While opening a branch, survey is conducted by the marketing team as per evaluation sheet of the company which includes net worth and educational qualification along with experience in the Securities market of the person, infra structure and location of the office etc. Data gathered by the marketing team helps management to determine the credit worthiness of the person for opening a branch/ registering as associate. After the mutual agreement for terms and conditions between the new associate and the company branch is opened.
- **Closing of Branches:** Branch closing either initiated at branch level if the branch manager shows his interest to discontinue or initiated by Head office if the performance of the branch is not acceptable to the company. While closing the branch, branch and clients are informed about the closure of branch. Intimation in physical form regarding closure of particular branch is sent to all the clients of that centre. Then as per clients' instructions either they are shifted to nearest branch / HO or their accounts are closed. When the procedure is completed for all the clients the branch is closed.

VII. **BRANCH /SUB-BROKER, AUDITS**

- The Company has a dedicated Compliance team which carry out periodic Branch / Sub - Brokers audit as prescribed by SEBI & Exchanges. The team verifies the areas such as:
 - No Cash dealings with clients are carried out.
 - No Contract note / confirmation has been issued to clients other than the ones sent by ISL
 - No Commission, brokerage or fees has been accepted from any client by associate.
 - No funds have been transferred from client's account to the account of associate or from account of one client to the account of another client
 - No personal trades of the associate have been executed in client's account under any circumstances etc.