

# **PMLA POLICY**

## **POLICIES AND PROCEDURE FOR PREVENTION OF MONEY LAUNDERING** **(Issued as per the requirements of the PMLA Act 2002)**

These policies and procedures apply to all staff of **R. R. Chokhani Stock Brokers Pvt. Ltd.** hereinafter referred to as “company” or “firm”.

This modified policy pursuant to 'Prevention of money Laundering Act',2002 (PMLA) to effectively 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 has been duly placed and approved in the meeting of Board of Directors of the Company dated 22<sup>nd</sup> March 2014 in accordance with the SEBI Circular no CIR/MIRSD/L/2014 dated 12.03.2014.

### **What is money laundering and terrorist financing?**

Money laundering is the process by which criminals attempt to conceal the nature, location or ownership of the proceeds of their criminal activities. If they are successful in converting “dirty” money into “clean” money, the process allows them to maintain control over these proceeds and, ultimately, to provide a legitimate cover for their source of wealth. Criminal activities are not restricted just to drug trafficking or terrorist activity. Nowadays, money laundering and other related laws cover the proceeds of all crime, including organized crime, extortion, corruption, theft, fraud, criminal deception, tax evasion and many others, no matter how small.

A very wide variety of methods are used to launder money. There are no hard and fast rules as to how money laundering occurs, the only real limitations being the imagination of the money launderer and his perceptions of the risks of being caught. Methods range from passing money through a complex international web of legitimate businesses and “shell” companies, to the purchase and resale of a luxury item.

Derivatives have been used by launderers as they offer a convenient and effective way of distancing criminal proceeds from their pursuit by law enforcement. There are of course many crimes where the initial proceeds take the form of cash. However, there are also many crimes, particularly the more sophisticated ones, where cash is either not involved or has already been converted into the underlying commodities or financial instruments to which derivatives are related.

Terrorist financing can be of a very different nature. Terrorist operations frequently require only very small amounts of money and the level of sophistication of many terrorist organizations is quite low, monies being raised from “charitable” donations, levies on members of terrorist organizations, extortion rackets, etc. Others are much more sophisticated and involve real estate, underground banking, and abuse of legitimate companies and markets.

### **PREVENTION OF MONEY LAUNDERING ACT, 2002 AND RELEVANT STATUTORY GUIDELINES**

The Prevention of Money Laundering Act, 2002 (PMLA 2002) forms the core of the legal framework put in place by India to combat money laundering. PMLA 2002 and the Rules notified there under came into force with effect from July 1, 2005. Director, FIU-IND and Director (Enforcement) have been conferred with exclusive and concurrent powers under relevant sections of the Act to implement the provisions of the Act.

The PMLA 2002 and rules notified thereunder impose obligation on banking companies, financial institutions and intermediaries to verify identity of clients, maintain records and furnish information to FIU-IND. PMLA 2002 defines money laundering offence and provides for the freezing, seizure and confiscation of the proceeds of crime.

**Important Definitions:**

1. "intermediary" means a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992;
2. "proceeds of crime" means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property
3. "scheduled offence" means –i) the offences specified under Part A of the Schedule; or ii) the offences specified under Part B of the Schedule if the total value involved in such offences is thirty lakh rupees or more;

**Section 3 of the Prevention of Money Laundering Act, 2002 defines offence of money laundering as under:**

*Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering.*

**Section 4 of the Prevention of Money Laundering Act, 2002 specifies punishment for money laundering as under:**

*Whoever commits the offence of money-laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years and shall also be liable to fine which may extend to five lakh rupees:*

*Provided that where the proceeds of crime involved in money-laundering relates to any offence specified under paragraph 2 of Part A of the Schedule, the provisions of this section shall have effect as if for the words "which may extend to seven years", the words "which may extend to ten years" had been substituted."*

**Section 12 of the Prevention of Money Laundering Act, 2002 lays down following obligations on banking companies, financial institutions and intermediaries.**

*12. (1) Every banking company, financial institution and intermediary shall –*

*maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month;*  
*furnish information of transactions referred to in clause (a) to the Director within such time as may be prescribed;*  
*verify and maintain the records of the identity of all its clients, in such a manner as may be prescribed.*

*Provided that where the principal officer of a banking company or financial institution or intermediary, as the case may be, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value so as to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time. (2) The records referred to in sub-section (1) shall be maintained for a period of ten years from the*

date of cessation of the transactions between the clients and the banking company or financial institution or intermediary, as the case may be."

### **Company Policy**

It is the policy of the company to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. 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.

### **Principal Officer Designation and Duties**

The company has designated Mr.Yogesh Raja, as the Principal Officer for its Anti-Money Laundering Program, with full responsibility for the company's AML program. The principal officer shall formulate / frame the PMLA policy and place before the board of directors of company for its approval. Mr.Yogesh Raja is qualified by experience, knowledge and training. The duties of the Principal Officer will include monitoring the company's compliance with AML obligations and overseeing communication and training for employees. The Principal Officer will also ensure that proper AML records are kept. When warranted, the Principal Officer will ensure filing of necessary reports with the Financial Intelligence Unit (FIU – IND)

The company has provided the FIU with contact information for the Principal Officer, including name, title, mailing address, e-mail address, telephone number and facsimile number. The company will promptly notify FIU of any change to this information.

### **Appointment of Designated Director**

To prevent and control Money Laundering, we have appointed "Designated Director" in terms of Money Laundering Act,2002 and the same were intimated to FIU-DIRECTOR, Chanakyapuri, Delhi. Our Designated director is responsible to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules.

### **Written Anti Money Laundering Procedures**

The Principal Officer has adopt written procedures to implement the Anti Money Laundering provisions as envisaged under the PMLA. Such procedures shall are At the time of opening an account or executing any transaction with it, the company will verify and maintain the record of identity and current address or addresses including permanent address or addresses of the client, the nature of business of the client and his financial status as under:

Broad categories of reason for suspicion and examples of suspicious transactions for an intermediary are indicated as under:

Identity of Client

- False identification documents
- Identification documents which could not be verified within reasonable time
- Non-face to face client
- Doubt over the real beneficiary of the account
- Accounts opened with names very close to other established business entities

## **CLIENT IDENTIFICATION PROCEDURE**

### **KNOW YOUR CLIENT**

The overriding principles in the identification and verification processes are Know Your Client (“**KYC**”) and Know Your Business (“**KYB**”). These principles, as well as being essential elements in combating money laundering and terrorist financing, enable Company to service its clients better. They are also essential in terms of recognition of suspicious activity. It is NOT the case that all unusual clients, transactions or circumstances need to be reported, just those that are suspicious, but it is a good place to start. It may be that upon further enquiry, the unusual elements are found to be fine, but if not, they need to be reported to Principal Officer for further consideration.

As a general rule, new client forms must be completed in relation to all new clients. Copies of identification evidence as requested on the form must be obtained as soon as possible. Independent verification of the client’s identity and address should be undertaken. If it is impossible to identify the client, then he should be turned away.

In the case of corporate clients or partnerships, certified copies of incorporation documents should be obtained and at a minimum, the identity of at least one of the executive directors or equity partners should be checked in accordance with individual identification procedures. Steps should be taken to identify those with ultimate control over the company (e.g. shareholders). If possible a visit should be rendered to the potential client, as it is a good action to meet the risk face-to-face.

### **Risk-Based Approach to KYC**

- Client acceptance is a critical activity in AML compliance. Every new Client accepted by an institution provides the individual with an entry point to local and international financial systems' Client acceptance, thus, becomes the first step in controlling money laundering and terrorist financing.
- Regulatory guidelines stipulate that a sound KYC program should determine the true identity and existence of the customer and the risk associated with the customer. It is imperative that institutions capture information about their customers' background, sources of funds, business, domicile and financial products used by them and how these are delivered to them in order to properly understand their risk profile.
- Encouragingly, 88 per cent of respondents reported that they are adopting a risk based approach to account opening, and hence KYC, with another 8 per cent actively considering moving towards it. With the multitude of requirements by different regulators around the globe, specifically when entering into a correspondent financial relationship, Indian financial institutions may have adopted a risk-based approach earlier than expected and before regulations mandated it. For local business of multinational financial institutions this would not be the case as they often adopt global policies and procedures, hence, they follow global best practices and standards.
- As customer risk rating and KYC drives enhanced due diligence and ongoing monitoring it is critical that organizations conduct a comprehensive assessment to understand the risks associated with their business and customers. This in turn will provide a basis upon which associated policies and procedures can be developed.

### **Risk Assessment**

The Company has risk assessment mechanism to identify money laundering and terrorist financing risk assess and take effective measures to mitigate them with respect to our clients, countries or geographical areas, nature and volume of transactions, payment methods used by our clients, etc.

Our risk assessment process consider all the relevant factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied and assessment is documented and updated regularly and made available to competent authorities and self regulating bodies, as and when required.

#### BEFORE THE CLIENT ACCOUNT IS OPENED

- In-person verification of all the clients is mandatory i.e. one of our employee should actually meet the ultimate client in person before accepting the documents for opening the client account and satisfy himself about the legal existence of the client.
- Each and every column of the KYC should be discussed with the client. It is mandatory that each and every column in the KYC should be filled in correctly and should be supported by adequate documents.
- The salesperson / RM to ensure that no account is opened in a fictitious name or on an anonymous basis.
- If it is not possible to ascertain the identity of the client or client is not providing the full and complete information, account of such client should not be opened.
- Extra care should be taken by the salespersons / RM while opening the accounts of the following types of **Clients of Special Category (CSC)** :
  - NRI and Clients in high risk countries
  - Trust, NGO or other charity organizations
  - Politicians (in India or elsewhere)
  - Companies who offers foreign exchange.
  - Clients with dubious reputation as per public information available.
  - Companies having close family shareholdings or beneficial ownership.
  - Non-face to face clients

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.

- The salesperson should enquire about the following things and satisfy himself about the genuineness of the declarations made by the client in the KYC.
  - Who is the beneficial owner of the account? If the person himself is not the Beneficial Owner (BO), then whether the BO is from within the family or otherwise.
  - Determine on whose behalf the transaction is being conducted. If some other person is acting on behalf of client, verify the authority given by the ultimate client for acting as agent
  - Enquire about the sources of funds for making payment for the trades.
- The sales person / RM should categorize each client by assigning a risk rating viz. low risk, medium risk and high risk. Head of Department should review the risk rating before signing on the control sheet. Illustrative list of points / criteria's that should be kept in mind for assigning risk rating to a client are given in **Annexure I**.

**We have adopted the following specific parameters, which are related to the overall' Client Due Diligence Process':**

- Policy for acceptance of clients
- Procedure for identifying the clients

- Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR)
- Risk management
- Analyzing alerts
- Reporting of alerts to FIU-IND
- Reliance on third party for carrying out due diligence
- Other Parameters

**FURTHER as per SEBI circular no. CIR/MIRSD/2/2013 dated January 24, 2013 that the Principal Officer will identify the Beneficial Owner and take reasonable steps to verify his identity.**

A. Where the client is a person *other than an individual or trust*, viz., company, partnership or unincorporated association/body of individuals, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

- a. 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.

Explanation: 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.

- b. In cases where there exists doubt under clause 4 (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

- c. Where no natural person is identified under clauses 4 (a) or 4 (b) above, the identity of the relevant natural person who holds the position of senior managing official.

B. Where the client is a *trust*, the intermediary shall identify the beneficial owners of the client and take reasonable measures 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.

C. Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

- D. Intermediaries dealing with foreign investors' viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012, for the purpose of identification of beneficial ownership of the client.

#### AFTER THE CLIENT ACCOUNT IS OPENED

- It is the responsibility of each RM to conduct scrutiny of the transactions of its clients on a daily basis and ensure that the transactions are consistent with the knowledge of RM about the client business and risk profile. Any unusual transactions should be reported to the Compliance Department or Operations Head.
- The RM's should pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose.
- The RM's should not put any restrictions on trading in any client account where an STR (Suspicious Transaction Reporting) has been made. Further, it should be ensured that there is no tipping off to the client at any level.
- Broad categories for reason for suspicion and examples of suspicious transactions are given in **Annexure II**.

The indicative list of documents required for opening an individual or non-individual account is enclosed.

#### INDICATIVE RESPONSIBILITIES OF SUPPORT FUNCTIONS

The roles and responsibilities of support functions / departments in implementing the policies and procedures relating to Money Laundering measures have been specified below:

#### ROLE OF ACCOUNT OPENING DEPARTMENT

- Any new individual client account to be compared with the list of "Banned Client List" maintained by the Account Opening Team and through [www.watchoutinvestors.com](http://www.watchoutinvestors.com). If it is a non -individual client account then names of the directors / partners / promoters / karta / authorized signatories / key management personnel should be compared.
- KYC of Trust, Charity organizations, students should be opened only with prior approval of compliance department.
- Account Opening Team should not process any new account without obtaining all the details and documents required for opening a new client account. The exceptions, if any, has to be signed off by Compliance Department.
- Checklist for account opening.

KYC and all other client related documentation by any mode should be kept for 10 years from the date of cessation of the transaction between the client and intermediary. Further KYC and all other client related documentation taken during the client due diligence process should be updated on annual basis or as when required to be updated.

## ***RISK MANAGEMENT***

- The Board of Directors of the company ensure that an effective KYC program is put in place by establishing appropriate procedures and ensuring their effective implementation covering proper management oversight, systems and controls, segregation of duties, training and other related matters. Responsibilities are explicitly allocated within the company for ensuring that the Company's policies and procedures are implemented effectively. The company, in consultation with boards, has decided to devise procedures for creating Risk Profiles of the existing and new customers and apply various Anti Money Laundering measures keeping in view the risks involved in a transaction, account or business relationship.
- As The internal audit and compliance functions have an important role in evaluating and ensuring adherence to the KYC policies and procedures, the compliance function should provide an independent evaluation of the Company's own policies and procedures, including legal and regulatory requirements. The company will appoint and conduct Concurrent/ Internal Audits on specific intervals that will specifically check and verify the application of KYC procedures at the branches and will comment on the lapses observed in this regard. The compliance in this regard may be put up before the Board on quarterly intervals.
- The company will conduct an ongoing employee training program so that all the staff is adequately trained in KYC procedures. Training requirements should have different focuses for frontline staff, compliance staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind the KYC policies and implement them consistently
- Implementation of KYC procedures requires the company to demand certain information from client which may be of personal in nature or which has hitherto never been called for. This can sometimes lead to a lot of questioning by the client as to the motive and purpose of collecting such information. There is, therefore, the company will educate, from time to time, the customer of the objectives of the KYC program.
  - The RMG team to specify internal threshold limits for each class of client accounts and pay special attention to the transaction, which exceeds these limits.
  - RMG to periodically check the financial details of the client accounts on large margin calls or client accounts with large account equity.

## **FINANCE AND ACCOUNTS**

- Report any Cash Transactions to Compliance Department.
- Third Party Receipts / Payments are not allowed to be accepted / made under any circumstances. If there is doubt, Principal Officer should be consulted and his advise needs to be obtained and followed.
- Records to be kept for 10 years from the date of cessation of the transaction between the client and intermediary.

## **NETWORKS / TECHNOLOGY**

- To evolve an internal mechanism for proper maintenance and preservation of records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities.
- Maintain and preserve the records for the **period of five years** from the date of cessation of the transaction between the client and intermediary.
- Hardware and technical requirements for preparing CTR and STR.
- Data files and data structures for preparing CTR and STR

## **INTERNAL AUDIT**

Company has appointed independent Chartered Accountants Company to conduct the internal and concurrent audit of the company with basic focus on the compliance requirements of the various statutes, exchanges and regulators.

Internal Auditors will conduct inter alia regular audits of the company's businesses to ensure compliance with our anti-money laundering policies and procedures including the testing of systems for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff of their responsibilities in this regard.

## **RECORD MAINTENANCE**

- (i) It should be ensured that the records evidencing the identity of its clients and beneficial owners as well as accounts files and business correspondence shall be maintained and preserved for a period of five years after the business relationship with has ended or the account has been closed, whichever is later.
- (ii) Records of every transaction (including vouchers) undertaken for a customer must also be retained for the normal prescribed period or at least five years after the transaction occurred whether the account is open or closed. These records must be sufficient to permit a transaction or series of transactions to be accurately re-created and form a reliable audit trail. This includes any transactions undertaken where settlement has been provided in cash rather than funds drawn from the customer's account.
- (iii) Records relating to training, compliance monitoring, and internal and external suspicious activity reports, should also be retained for the normal prescribed period or a minimum of five years, whichever is higher.
- (iv) Records should be maintained in such a manner that they can be easily retrieved whenever required. Records can be in any format i.e. hard, soft, on computer, or other electronic format.
- (v) Documentary evidence of any action taken in response to internal and external reports of suspicious activity, including the records of the Compliance Head, must also be retained for at least five years. Where it is known that an investigation is ongoing, the relevant records should be retained till the investigation is completed. If there is no evidence that an investigation is underway five years after the external report was made, the report does not need to be retained any longer.
- (vi) Where business is refused because of a failure to meet the KYC Standards or other anti-money laundering requirements, a record of the refusal should be retained. (no record is required where business is refused on purely commercial grounds).

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

### ***ONGOING VIGILANCE – RESPONSIBILITY OF EACH AND EVERY EMPLOYEE***

Employees must familiarize themselves with their customers' normal trading activities and usual market practices in order to recognize anomalous behavior.

It is the active responsibility of each and every employee of the company to ensure that the company and its facilities, resources, employees are not being misused in any manner.

### **List of Designated Individuals/ Entities**

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

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

Company is aware that Under section 51A of Unlawful Activities (Prevention) Act, 1967, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism.

### **Reporting to FIU IND**

#### For Cash Transaction Reporting

- All dealing in Cash that requiring reporting to the FIU IND will be done in the CTR format and in the matter and at intervals as prescribed by the FIU IND

#### For Suspicious Transactions Reporting

We will make a note of Suspicion Transaction that have not been explained to the satisfaction of the Principal Officer and thereafter report the same to the FIU IND and the required deadlines. This will typically be in cases where we know, suspect, or have reason to suspect:

- the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any the transaction reporting requirement,
- the transaction is designed, whether through structuring or otherwise, to evade the any requirements of PMLA Act and Rules framed thereof

- the transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and we know, after examining the background, possible purpose of the transaction and other facts, of no reasonable explanation for the transaction, or
- the transaction involves the use of the company to facilitate criminal activity.

We will not base our decision on whether to file a STR solely on whether the transaction falls above a set threshold. We will file a STR and notify law enforcement of all transactions that raise an identifiable suspicion of criminal, terrorist, or corrupt activities.

All STRs will be reported quarterly to the Board of Directors, with a clear reminder of the need to maintain the confidentiality of the STRs

We will not notify any person involved in the transaction that the transaction has been reported, except as permitted by the PMLA Act and Rules thereof.

### **Reliance on third party for carrying out due diligence**

We may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner.

### **AML Record Keeping**

#### **a. STR Maintenance and Confidentiality**

We will hold STRs and any supporting documentation confidential. We will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a STR. We will refuse any requests for STR information and immediately tell FIU IND of any such request we receive. We will segregate STR filings and copies of supporting documentation from other company books and records to avoid disclosing STR filings. Our Principal Officer will handle all requests or other requests for STRs.

#### **b. Responsibility for AML Records and SAR Filing**

Principal Officer will be responsible to ensure that AML records are maintained properly and that STRs are filed as required

#### **c. Records Required**

As part of our AML program, our company will create and maintain STRs and CTRs and relevant documentation on customer identity and verification. We will maintain STRs and their accompanying documentation for at least five years from the date of the transaction between the client and the intermediary.

### **Training Programs**

We will develop ongoing employee training under the leadership of the Principal Officer. Our training will occur on at least an annual basis. It will be based on our company's size, its customer base, and its resources. 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 company's compliance efforts and how to perform them; the company's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

We will develop training in our company, or contract for it. Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos.

We will review our operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes.

### **Investors Education**

Before account opening company demands certain information like documents evidencing source of funds/income tax returns/bank records etc. from investors which may be of personal nature for Implementation of AML/CFT measures. We educate the client about the importance of AML/CFT if he does not disclose any information which is required as per the client registration procedure.

### **Program to Test AML Program**

a. Staffing

The testing of our AML program will be performed by the Statutory Auditors of the company

b. Evaluation and Reporting

After we have completed the testing, the Auditor staff will report its findings to the Board of Directors. We will address each of the resulting recommendations.

### **Monitoring Employee Conduct and Accounts**

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, as part of their annual performance review. The Principal Officer's accounts will be reviewed by the Board of Directors

### **Confidential Reporting of AML Non-Compliance**

Employees will report any violations of the company's AML compliance program to the Principal Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to the Director, Shri Ramakant R Chokhani. Such reports will be confidential, and the employee will suffer no retaliation for making them.

### **Approval**

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

**For M/s R. R. Chokhani Stock Brokers Pvt. Ltd**

Sd/-

**Ramakant R Chokhani**  
**Director**

## **Annexure I**

### **BROAD CRITERIA'S FOR RISK CATEGORIZATION OF CLIENTS**

#### **High Risk Clients:**

1. Trust, Charities, NGOs and organizations receiving donations.
2. Clients who are refusing to provide their financials details / source of income.
3. Non – Individual Clients having close family shareholdings or beneficial ownership i.e. less than 5 shareholders or if a single person shareholding is more 75% of the total shares.
4. Loss making Non- Individual clients or if reserves and surplus balance is less than Rs. 5 lac.
5. Clients against whom any action has been taken by SEBI/Stock Exchange or any other regulatory authority.
6. Corporate / Partnership Firms / any other entities with track record of less than 2 years.
7. Individual clients whose employer is a politician, income tax / custom department / any other government department.
8. Non Resident Indian (NRI) clients
9. Corporate clients not disclosing the identity, address of Directors, not giving financial statements.
10. Clients residing in highly sensitive areas. For example, naxalite regions, areas where dealing in narcotic drugs, immoral traffic, corruption, etc is highly predominant. This includes person residing in UAE, Chandrapur (India), Kashmir (India), Leh-Ladakh, Pakistan, Kuwait, Iran & Iraq, Bangladesh.
11. Client having bank account with countries where secrecy of the account is maintained.
12. Politically exposed persons (PEP), family members or close relatives of PEPs. Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc.
13. Companies offering foreign exchange offerings.
14. Clients in high risk countries (where existence/effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, countries reputed to be any of the following - Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
15. Non face to face clients.
16. Clients with dubious reputation as per public information available etc

#### **Medium Risk Clients:**

1. Individuals whose annual income ranges for last three years is Rs. 25,00,000 and above and who have not submitted any financial documents.
2. Client whose account is operated by POA holder other than Company.
3. Clients who has given trading authorization in some other person's name. (excluding sub broker)
4. House wives Accounts
5. Clients who have not given the nature of business or nature of business are lending, investment, finance, credit etc.

#### **Low Risk Clients:**

All clients not meeting the above criteria are low risk clients.

## Annexure II

### EXAMPLES OF REASON FOR SUSPICION AND OF SUSPICIOUS TRANSACTIONS

The examples given herein below have been structured around the business processes within our industry. The list of examples is not exhaustive. The examples below should be read in the context of the particular transaction.

The regular monitoring of all customers — both new and longstanding — must include consideration of whether accounts are being used for questionable purposes.

While it is impossible to list all the transactions or circumstances that might raise a suspicion of money laundering, the following questions should be closely considered:

- Is the customer willing to accept uneconomic terms without apparent reason?
- Is the transaction inconsistent with legitimate business activity?
- Is the transaction inconsistent with the normal pattern of the customer's activity?
- Is the transaction inconsistent with the customer's account-opening documents?
- Has the customer requested that the transaction be cleared in a way that is inconsistent with normal practice?
- Has the customer received wire transfers from, or sent wire transfers to, countries that have not previously been associated with the customer's business?
- Is the customer or the customer's business activity associated with countries recognized by regulators as high-risk money laundering centers?

#### **New business**

- False identification documents
- Identification documents which could not be verified within reasonable time
- A person for whom verification of identity proves unusually difficult or who is reluctant to provide details
- Non-face to face clients
- Doubt over the real beneficiary of the account
- Accounts opened with names very close to other established business entities
- A person where there are difficulties and delays in obtaining copies of meaningful accounts or other documents of incorporation;
- Involvement of countries where production of drugs or drug trafficking may be prevalent, or which have particular problems with organised crime, terrorism, corruption or fraud.
- A client with no discernible reason for using the firm's service (e.g. clients with distant addresses who could find the same service nearer their home base, or clients whose requirements are not in the normal pattern of the firm's business and could be more easily serviced elsewhere);
- An investor introduced by an overseas bank, affiliate or other investor, when both investor and introducer are based in countries where production of drugs or drug trafficking may be prevalent;

#### **Dealing patterns**

- Transactions not in line with the investor's normal trading activity / Unusual activity compared to past transactions.
- Buying and selling of an investment with no rationale purpose or in circumstances which appear unusual (e. g. churning at the client's request);
- Usually trading in low-grade securities.
- Trades with no economic rationale or bona fide purpose
- Doubtful sources of funds

- Appears to be a case of insider trading
- Investment proceeds transferred to a third party
- Transactions reflect likely market manipulations
- Suspicious off market 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
- Large number of accounts having a common account holder, introducer or authorized signatory with no rationale
- Unexplained transfers between multiple accounts with no rationale

### **Abnormal transactions**

- Involvement of apparently unrelated third parties;
- A number of transactions by the same counterparty in small amounts of the same investment and then sold in one transaction, the proceeds being credited to an account different from the original account;
- Any transaction in which the nature, size or frequency appears unusual (e. g. early termination of packaged products at a loss due to front end loading, or early cancellation, especially where cash had been tendered and/or the refund cheque is to a third party);
- Transactions not in keeping with normal practice in the market to which they relate (e.g. with reference to market size and frequency, or at off-market prices);
- Other transactions linked to the transaction in question which could be designed to disguise money and divert it into other forms or to other destinations or beneficiaries.
- 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.

### **Intermediaries**

- There are many clearly legitimate reasons for use of an intermediary. However, the use of intermediaries also introduces further parties into transactions thus increasing complexity and preserving anonymity.
- Any apparently unnecessary use of an intermediary should give rise to further enquiry.

### **Employees and agents**

- Changes in employee characteristics (e. g. lavish life styles or avoiding taking holidays);
- Changes in employee or agent performance (e. g. salesman has a remarkable or unexpected increase in performance);
- Any dealing with an agent where the identity of the ultimate beneficiary or counterparty is undisclosed, contrary to normal procedure for the type of business concerned.

### **Payment**

- A number of transactions by the same counterparty in small amounts of the same investment and then sold in one transaction;
- Payment by way of third party cheque or money transfer where there is a variation between the account holder, the signatory and the prospective investor.

**Delivery**

- Settlement to be made by way of bearer securities from outside a recognised clearing system;
- Allotment letters for new issues in the name of persons other than the client.
- Involvement of third parties for receipt / delivery of securities

**Annexure III**

**MONEY LAUNDERING SUSPICION REPORT FORM  
FOR INTERNAL USE ONLY**

Complete and send this form to Principal Officer as soon as possible.

Ref. No.:

<b>Sr. No.</b>	<b>Particulars</b>	<b>Remarks</b>
1.	Name and Address of Client:	
2.	Client Code:	
3.	Telephone (inc area codes):	
4.	Fax (inc area codes):	
5.	Email:	
6.	Mobile (inc area codes):	
7.	Contact Person name:	
8.	Occupation/Type of Business:	
9.	Contact details of Principal (if person not acting as Principal):	
10.	Other countries and territories involved:	
11.	Other companies and subsidiaries or persons involved:	
12.	Brief details of transaction or other circumstances:	
13.	Source of funds (if applicable):	
14.	Reasons for suspicion:	

Signed ..... Date: .....

Name:.....

**TO BE COMPLETED BY MONEY LAUNDERING REPORTING OFFICER**

Reported to FIU:	Yes / No
If Yes, date:	
If No, give reasons:	
Comments:	
Signed by Principal Officer	
Date:	

