

INTRODUCTION

Money Laundering may be defined as cleansing of dirty money obtained from legitimate or illegitimate activities including drug trafficking, terrorism, organized crime, fraud and many other crimes with the objective of hiding its source and rendering it in legally usable form. It is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. The process of money laundering involves creating a web of financial transactions so as to hide the origin of and true nature of these funds.

Money laundering activity though spawning yet, has a distorting and disruptive effect on economies, marketplaces, the integrity of jurisdictions, market forces, democracies etc. It is in short a cancer, existing for one purpose only, to make crime and illegal activity worthwhile.

With the growing financial sector, India is vulnerable to money laundering activities. Large portions of illegal proceeds are laundered through the alternative remittance system called “hawala”. Under this system, individuals transfer funds from one country to another or from one state to another, often without the actual movement of currency.

To combat money-laundering activities, the Government of India enacted the Prevention of Money Laundering Act, 2002 (hereinafter referred to as the “Act”) which was published in the gazette of India on 1st July 2005. The basic objective of the Act is three fold, viz.:

- To prevent, combat and control money laundering.
- To confiscate and seize the property obtained from the laundered money.
- To deal with any other issue connected with money laundering in India.

Policies and Procedures to combat money laundering and terrorist financing

Pursuant to the provisions of the Prevention of Money Laundering Act, 2002 (“PMLA”) every Banking Financial and Non Banking Financial companies and Financial Intermediaries, which includes stockbrokers have to formulate internal policies and procedures to guard against money laundering activities, particularly pertaining to:

- All cash transactions of the value of more than Rs 10 lacs or its equivalent in foreign currency.

- All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign where such series of transactions take place within one calendar month.
- All suspicious transactions (including all transactions i.e. those integrally connected and those remotely connected) whether or not made in cash and including, inter-alia, credits or debits into from any non monetary account such as demat account, security account maintained by the registered intermediary.

Further RBI has, vide its circular no. DNBS(PD).CC 48/10.42/2004-05 dated 21st February, 2005 issued guidelines on 'Anti-Money Laundering Standards' to be followed by all Non-Banking Financial Companies (NBFCs) for combating financing of Terrorism.

In accordance to the Prevention of Money Laundering Act, 2002 as well as RBI's Circular, the following PMLA policy of the company has been adopted by the Board of Directors of the company.

(I.) Objectives:

- i. to put in place systems and procedures to help control financial frauds, identify money laundering and suspicious activities and safeguarding the company from being unwittingly used for transfer or deposit of funds derived from criminal activity or for financing of terrorism;
- ii. to put in place systems and procedures for customer identification and verifying his / her identity and residential address; and
- iii. to monitor transactions of a suspicious nature.

(II.) Definition of Client:

For the purpose of this PMLA policy, a Client is:

- i. a person or entity that maintains an account and/ or has a business relationship with the company in respect of obtaining funding and investments which includes individuals, companies, partnership firms, banks, mutual funds, Limited Liability Partnerships, unincorporated entities, trusts and/ or overseas corporate bodies;
- ii. beneficial owner(s) of the above said entities;
- iii. professional intermediaries, such as stock brokers, chartered accountants and solicitors as permitted under law; or

- iv. any other person or entity connected with a financial transaction, which can pose significant reputational or other risks to the company.

(III.) Procedures:

The Company shall undertake due procedure for Client Due Diligence process which include-

- a. Procedure for Client Identification & Acceptance
- b. Transactions monitoring and reporting especially suspicious transaction reporting

a. Procedure for Client Identification & Acceptance:

- i. The Company, being a Non Banking Financial Company is engaged in financial services business which mainly comprise of Loans against Shares, IPO Funding for retail investment category, and Margin Funding. Hence, the client/ customer of the Company can be broadly classified into the categories, as referred to in Para II above.
- ii. Customer identification means identifying the customer and verifying his / her / its identity by using reliable and independent source of documents, data or information to ensure that the customer is not a fictitious person.
- iii. The company shall ensure that its customer is not a fictitious person by verifying the identity of the customer through documentation and shall also carry out necessary checks, so as to ensure that the identity of the customer on the basis of the documents obtained does not match with any person with known criminal background or with banned entities, such as individual terrorists or terrorist organizations. The company shall periodically monitor its customer base with the RBI circulars and information providing such lists of terrorists or terrorist organizations.
- iv. The company may collect such documents and other information in respect of different categories of its customers depending on perceived risk and keeping in mind the requirements of Prevention of Money Laundering Act, 2002 and guidelines issued by the RBI from time to time. Besides risk perception, the nature of information / documents required would also depend on the type of the customer (individual, corporate etc.)
- v. There are certain indicative guidelines issued by RBI from time to time for customer identification requirements with regard to matters, such as `Trust / Nominee or Fiduciary Accounts, Accounts of companies & firms, Client Accounts opened by professional intermediaries, Accounts of Politically Exposed Persons resident outside India and Accounts of non face-to-face customers and these guidelines may also be adhered to, to the extent applicable.

- vi. 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. Decision to deal with such persons as a customer shall be taken up at a senior management level and shall be subjected to enhanced monitoring.
- vii. While opening accounts as described above, the customer would be made aware that if at any point of time, the balances in all his/her accounts with the company (taken together) exceeds the prescribed amount or total credit in the account exceeds the prescribed limit, no further transactions will be permitted until the full KYC procedures is completed.

b. Ceiling & Monitoring of Transactions:

Regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money Laundering procedures.

- i. To achieve this, the Company shall:
 - o watch periodically the normal activity of the client so that deviations in transactions / activities are identified and enquired with the client.
 - o ensure that transaction of suspicious nature is reported to higher authorities/head of the department in the Company as well as the appropriate legal authority.
 - o ensure that random examinations of a selected transaction undertaken by clients are carried out in order to comment on their nature i.e. whether they are the suspicious transactions or not.
- ii. The company shall monitor transactions of a suspicious nature on an ongoing basis for the purpose of reporting it to the appropriate authorities. The extent of monitoring by the Company will depend on the risk sensitivity of the account and special attention will be given to all complex unusually large transactions, which have no apparent economic or lawful purpose.
- iii. The company shall promptly report such high value cash transactions or transactions of a suspicious nature to the appropriate regulatory and investigating authorities.

Further to control and monitor the Suspicious Transaction, the Company shall-

- i. Ensure to take appropriate steps to enable suspicious transactions to be recognized and report suspicious transactions. A list of circumstances which may be in the nature of suspicious

transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

- a. Clients whose identity verification seems difficult or clients appears not to co-operate
- b. Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing/business activity;
- c. Clients in high-risk jurisdictions or clients introduced by banks or affiliates or their clients based in high risk jurisdictions;
- d. Substantial increases in business without apparent cause;
- e. Unusually large cash deposits made by an individual or business;
- f. Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- g. Transfer of investment proceeds to apparently unrelated third parties;
- h. Unusual transactions by shell corporations, offshore banks/financial services, businesses reported to be in the nature of export-import of small items.

Every such suspicious transaction will be immediately notified to the Principal/ Compliance officer who is Designated as such for the purpose within the Company. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature reason for suspicion etc. However, there would be normal dealing with the suspicious client and that the client would 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.

(IV.) Risk Management:

The company may categorize its customers into 'High Risk' & 'Others' according to its Risk Management Policy and review it from time to time. The company may devise procedures for creating risk profiles of its existing and new customers and apply various Anti-Money Laundering measures keeping in view the risks involved in a financial transaction or a business relationship. The company's compliance functions shall play an important role in evaluating and ensuring adherence to PML policy and procedure, including legal and regulatory requirement. The company for this purpose, if required, may also engage independent risk management companies/agencies and solicit their independent opinion. The compliance in this regard is being and will continue to be put up before the Audit Committee/ Board on a periodical basis.

(V.) High standards in hiring policies and training with respect to anti-money laundering:

The Company shall follow adequate screening procedures to ensure high standards when hiring employees. Key positions within the own organization structure would be identified having regard to the risk of money laundering and terrorist financing and the size of their business and it would be ensured that the employees taking up such key positions are suitable and competent to perform their duties. Proper anti-money laundering and anti-terrorist financing training shall also be provided periodically to the staff members.

The company may also opt for providing an ongoing employee training programme, so that staff members are adequately trained, who in turn may also educate customer from time to time and thereby adhere to the PML policy and compliance.

(VI.) Designation of an officer for reporting of suspicious transactions:

The Suspicious transactions shall be reported immediately to the Principal/ Compliance officer of the company. The principal or the Compliance officer already appointed for the purpose should act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions. Any deviations/ suspicious transactions noticed at any levels should be reported to the Principal Officer. The following are the details of the Principal/ Compliance officer of the Company:

Name: Mr. Durgesh Soni

Designation: Company Secretary & Compliance Officer

Phone: +91 79 30000320, 321

In addition to the guidelines given under the aforesaid Policy, the company may also stipulate other guidelines through its Investment Policy & other policy documents and the same shall also be adhered to.

Rajesh P. Khandwala

Managing Director