

POLICY
ON
ANTI MONEY LAUNDERING
ON STOCK BROKING

Adopted by
“RRB Master Securities Delhi Ltd.”

PMLA POLICY

RRB Master Securities Delhi Ltd. had designed this policy of PMLA 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. To discourage and identify any Money Laundering or Terrorist financing Activities this policy provides a detailed Account of the procedures and obligations to be followed to ensure compliance with issues related to **KNOW YOUR CLIENT (KYC) Norms, ANTI MONEY LAUNDERING (AML), CLIENT DUE DILIGENCE (CDD) and COMBATING FINANCING OF TERRORISM (CFT)**. Policy specifies the need for Additional disclosures to be made by the clients to address concerns of Money Laundering and Suspicious transactions undertaken by clients and reporting to **FINANCE INTELLIGENT UNIT (FIU-IND)**. These policies are applicable to both Branch and Head office Operations and are reviewed from time to time.

INTRODUCTION:

Background:

Pursuant to the recommendation made by the Financial Action Task Force on Anti Money Laundering standards, SEBI had issue the guidelines on Anti Money Laundering standards vide their notification no. ISD/CIR/RR/AML/1/6 dated 18th January 2006 and vide letter no. ISD/CIR/RR/AML/2/6 dated 20th March 2006, vide Circular No. CIR/MIRSD/1/2014 dated 12th March 2014 had issue the obligation of Intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992. As per the SEBI guidelines, all Intermediaries have been advice to ensure that proper policy frameworks are put in place as per the guidelines on Anti Money Laundering standards notify by SEBI.

What is Anti Money Laundering?

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

Financial Intelligent Unit (FIU)

The government of India set up Financial Intelligent Unit -India (FIU) on 18th November 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister. FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transaction.

The Prevention of Money Laundering Act, 2002 (PMLA)

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance, and Government of India. The PMLA 2002 and Rules notified there under impose an obligation on intermediaries (including stock brokers and sub-brokers) to verify identity of clients, maintain records and furnish information to the Financial Intelligence Unit (FIU) INDIA

As per the provisions of the Act, every banking company, financial institution (which includes Chit Fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and **Intermediary** (which includes 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) shall have to maintain a record of all the transactions, the nature and value of which has been prescribed in the Rules notified under the PMLA. For the purpose of PMLA, such transactions include:

1. All cash transactions of the value of more than Rs.10 Lakhs or its equivalent in foreign currency.
2. All series of cash transactions integrally connected to each other, which have been valued below Rs.10 Lakhs or its equivalent in foreign currency, such series of transactions within one calendar month.
3. All suspicious transactions whether or not made in cash.

Policy of RRB Master Securities Delhi Limited

RRB Master Securities Delhi Limited (RRBMSDL) has resolved that it would, as an internal policy, take adequate measures to prevent money laundering and shall put in place a framework to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002.

Implementation of this Policy

Mr Ashish Kumar Goel (Compliance Officer), – RRB Master Securities Delhi Ltd will be the **Principal Officer** who will be responsible for

- compliance of the provisions of the PMLA and AML Guidelines
- act as a central reference point and play an active role in identification & assessment of potentially suspicious transactions
- Ensure that RRBMSDL discharges its legal obligation to report suspicious transactions to the concerned authorities.

All the dealers and staff be trained for the policies and procedures relating to prevention of money laundering, provisions of the PMLA and the need to monitor all transactions to ensure that no suspicious activity is being undertaken under stock trading.

Every staff member is informed about the appointment of Principal Officer, who is Mr. Ashish Kumar Goel.

Every staff member, who is in direct contact with the client will report all suspicious transactions to the Principal Officer and the Principal Officer will monitor the transactions and ensure compliance with the Anti Money Laundering Guidelines.

The staff member will undertake the transaction of the client only after proper identification of the customer according to Know Your Client (KYC) Policy.

- For that it is clearly stated that before entering into any transaction - proof of identity of the clients must be obtained and any one of the following document should be collected after verifying from the original :

Pan Card

Passport

Voter ID

Driving License

- Proof of address of the clients should also be obtained. Any one of the following should be collected after verifying from the original :

Copy of Passport

Voter ID

Driving License

Electricity Bill

Telephone Bill or

Bank Passbook

A personal interaction must be made by one of the staff member before opening the account.

The Front office should be vigilant and conduct ongoing due diligence and security throughout the course of the business relationship with the clients.

Relationship with a business entity like a company / firm should be established only after obtaining and verifying suitable documents in support of name, address and business activity such as certificate

of incorporation under the Companies Act, 1956, MOA and AOA, registration certificate of a firm (if registered), partnership deed, etc.

The Board Resolution for carrying out activities with name of the employees who would be authorised to transact on behalf of the company/ firm and documents of their identification together with their signatures, should also be obtained.

Copies of all documents called for verification should be kept on record.

In case of slight doubt, Dealer will verify the necessary documents before opening an account to ensure the client background.

- In Money Laundering the following is covered :
 - All cash transactions of the value of more than Rs. 10 lakhs or its equivalent in foreign currency.
 - All series of cash transactions integrally connected to each other which have valued below but taken place within one calendar month.
 - a) For that purpose all the dealers are informed that don't undertake transactions in cash for their clients. All the receipts and payments will be accepted only through cheques.
 - b) Every dealer will monitor the amount involved in the transactions undertaken for their clients. If any time there is large difference, the dealer will monitor the transactions and ask the client for such variations.
 - c) If the Dealer is not satisfied with the source of funds / nature of transactions he will report to the Principal Officer.
- In case of suspicious transactions, dealer will report in writing to the Principal Officer.
 - full details of all suspicious transactions undertaken by the client.
 - When the Principal Officer is reasonably satisfied that the suspicious transactions has / may have resulted in money laundering, he will make a report to the appropriate authority viz. the FIU.
 - The Principal Officer will maintain all the correspondence & reports with the appropriate authority in connection with suspicious transactions.

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

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

The Customer Due Diligence Process includes three specific parameters :

- a) Policy for Acceptance of Clients
- b) Client Identification Procedure
- c) Suspicious Transactions identification & reporting

a) Policy for Customer Acceptance

- 1) Each client should be met in person:** Accept client whom we are able to meet personally. Either the client should visit the office/branch or concerned official may visit the client at his residence / office address to get the necessary documents filled in and signed. Preferably accept clients who live within the jurisdiction of the branch. As far as possible, ensure that the new client is introduced by an existing client.
- 2) Accepts client on whom we are able to apply appropriate KYC procedures:** Obtain complete information from the client. It should be ensured that the initial forms taken by the client are filled in completely. All photocopies submitted by the client are checked against original documents without any exception. Ensure that the 'Know Your Client' guidelines are followed without any exception. All supporting documents as specified by Securities and Exchange Board of India (SEBI) and Exchanges are obtained and verified
- 3) Do not accept clients with identity matching persons known to have criminal background:** Check whether the client's identify matches with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement/regulatory agency worldwide.
- 4) Be careful while accepting Clients of Special category:** We should be careful while accepting clients of special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed Persons (PEP), persons of foreign origin, companies having closed share holding/ownership, companies dealing in foreign currency, shell companies, overseas entities, clients in high risk countries, non face to face clients, clients with dubious background. Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange, etc.) or clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption/fraud level is high (like Nigeria, Burma,etc). Scrutinize minutely the records/ documents pertaining to clients belonging to aforesaid category.
- 5) Do not accept client registration forms which are suspected to be fictitious:** Ensure that no account is being opened in a fictitious / benami name or on an anonymous basis.
- 6) Do not compromise on submission of mandatory information/ documents:** Client's account should be opened only on receipt of mandatory information along with authentic supporting documents as per the regulatory guidelines. Do not open the accounts where the client refuses to provide information/documents and we should have sufficient reason to reject the client towards this reluctance.

b) Customer Identification Procedure (FOR NEW CLIENTS)

Objective: To have a mechanism in place to establish identity of the client along with firm proof of address to prevent opening of any account which is fictitious / benami / anonymous in nature.

Documents which can be relied upon:

-PAN Card: PAN card is mandatory and is most reliable document as only one card is issued to an individual and we can independently check its genuineness through IT website.

-IDENTITY Proof: PAN Card itself can serve as proof of identity. However, in case PAN card carries an old photograph of the holder, which does not match current facial features of the client, we should take other identity proof in form of Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card.

-ADDRESS Proof: For valid address proof we can rely on Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client.

Documents to be obtained as part of customer identification procedure for new clients:

a. In case of individuals, one copy of the following documents have to be obtained :

-As PAN is mandatory, verify its genuineness with IT website and cross verify the PAN card copy with the original. [Please put "verified with original" stamp as proof of verification]

-Other proofs for identity are Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card or any other document prescribed by the regulatory authorities.

- Address proof in the form of Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client or any other document prescribed by the regulatory authorities.

b. In case of corporates, one certified copy of the following documents must be obtained:

- Copy of the Registration/Incorporation Certificate
- Copy of the Memorandum & Articles of the Association
- Copy of the PAN card and the Director Index No. (DIN)
- Copy of the latest audited Annual Statements of the corporate client
- Latest Net worth Certificate
- Latest Income Tax return filed.
- Board Resolution for appointment of the Authorized Person who will operate the account.
- Proof of address and identity of Authorized Person

c. In case of partnership firm one certified copy of the following must be obtained:

- Registration certificate
- Partnership Deed
- PAN card of partners
- Authorization letter for the person authorized to open and operate the account
- Proof of identity and address of the authorized person.
- Annual statement/returns of the partnership firm

d. In case of a Trust, one certified copy of the following must be obtained:

- Registration certificate
- Trust Deed

- PAN card
- Authorization letter for the entity authorized to act on their behalf
- Officially valid documents like PAN card, voters ID, passport, etc of person(s) authorized to transact on behalf of the Trust.

e. In case of unincorporated association or a body of individuals, one certified copy of the following must be obtained:

- Resolution of the managing body of such association or body of individuals
- PoA in favour of person authorized to transact
- Officially valid documents like PAN card, voters ID, passport, etc of the person(s) authorized to transact
- Any document required by RRBMSDL to establish the legal existence of such an association or body of individuals.

f. In case of an NRI account - Repatriable / non-repatriable, the following documents are required:

- Copy of the PIS permission issued by the bank
- Copy of the passport
- Copy of PAN card
- Proof of overseas address and Indian address
- Copy of the bank statement
- Copy of the demat statement
- If the account is handled through a mandate holder, copy of the valid PoA/mandate

Risk-based Approach

It is generally recognized that certain customers may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business relationship or transaction etc. As such, the registered intermediaries should apply each of the customer due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the registered intermediaries should adopt an enhanced customer due diligence process for higher risk categories of customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with the risk-based approach, the type and amount of identification information and documents that registered intermediaries should obtain necessarily depend on the risk category of a particular customer. Accordingly the company RRBMSDL would categorized the clients to High Risk having the Turnover of >Rs. 150 Crores per quarter. Further any Corporate Client will also be categorized as High Risk.

Clients of special category (CSC):

Such clients include the following

- Non resident clients
- High Net worth clients,
- Trust, Charities, NGOs and organizations receiving donations
- Companies having close family shareholdings or beneficial ownership
- Politically exposed persons (PEP) of foreign origin

f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)

g. Companies offering foreign exchange offerings

h. 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 centers, tax havens, countries where fraud is highly prevalent.

i. Non face to face clients

j. Clients with dubious reputation as per public information available etc. The above mentioned list is only illustrative and the intermediary should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

*A client having Annual Income More than Rs. 25 Lac or Net Assets/ Worth exceeding Rs. 1 Core would be treated as High Networth Client.

Risk Profiling of the Client

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

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

Category A – Low Risk

Category B – Medium Risk

Category C – High risk

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

Category B clients are those who are intra-day clients or speculative clients. These are the clients who maintain running account with RRBMSDL.

Category C clients are those who have defaulted in the past, have suspicious background, do not have any financial status, etc. Further RRBMSDL would categorized the clients to High Risk having the Turnover of >Rs. 150 Crores per quarter. Further any Corporate Client will also be categorized as High Risk.

Suspicious Transactions

All are requested to analyze and furnish details of suspicious transactions, whether or not made in cash. It should be ensured that there is no undue delay in analysis and arriving at a conclusion.

What is a Suspicious Transaction: Suspicious transaction means a transaction whether or not made in cash, which to a person acting in good faith - Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or appears to be made in circumstance of unusual or unjustified complexity; or appears to have no economic rationale or bona fide purpose. A Few examples of suspicious transactions can be:

- a) Large amounts of Cash received against receivables
- b) Demand Drafts or cheques issued by third parties
- c) Drafts having instructions to be transferred to a thirty party (endorsement and co)
- d) Cheques not received from banks other than registered bank accounts

Under such circumstances, the transaction should be brought to the notice of the compliance officer for further investigation and necessary action. If the Principal Officer is reasonably satisfied that the suspicious transaction has/ may have resulted in Money Laundering, he should make a report to the appropriate authority viz. the FIU.

Combating Financing of Terrorism

In terms of PMLA Rules, suspicious transaction should include, *inter alia*

- a) transactions, which give rise to a reasonable ground of suspicion that these may involve financing of the activities relating to terrorism. Intermediaries are, therefore, advised to develop suitable mechanism through appropriate policy framework for enhanced monitoring of accounts suspected of having terrorist links and swift identification of the transactions and making suitable reports to FIU-Ind on priority.
- b) As and when list of individuals and entities, approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs), are received from Government of India, Reserve Bank circulates these to all banks and financial institutions. Banks/Financial Institutions should ensure to update the lists of individuals and entities as circulated by Reserve Bank. The UN Security Council has adopted Resolutions 1988 (2011) and 1989 (2011) which have resulted in splitting of the 1267 Committee's Consolidated List into two separate lists, namely:
 - “Al-Qaida Sanctions List”, which is maintained by the 1267 / 1989 Committee. This list shall include only the names of those individuals, groups, undertakings and entities associated with Al-Qaida. The Updated Al-Qaida Sanctions List is available at http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml.
 - “1988 Sanctions List”, which is maintained by the 1988 Committee. This list consists of names previously included in Sections A (“Individuals associated with the Taliban”) and B (“Entities and other groups and undertakings associated with the Taliban”) of the Consolidated List. The Updated 1988 Sanctions list is available at <http://www.un.org/sc/committees/1988/list.shtml>

The latest list of entities notified by the sanctions committee latest issued dated 2nd March 2016 and other issued that is annexed here to, which shall be updated as and when such lists are issued.

The staff engaged in KYC verification are advised that before opening any new account it should be ensured that the name/s of the proposed customer does not appear in the lists.

Jurisdictions that do not or insufficiently apply the FATF Recommendations

The Company is required to take into account risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statement (Latest FATF Statement – 23rd June 2017 is attached). The company will give special attention to business relationships and transactions with persons from or in countries that do not or insufficiently apply the FATF Recommendations and jurisdictions included in FATF Statements. Further, if the transactions have no apparent economic or visible lawful purpose, the background and purpose of such transactions should, as far as possible be examined, and written findings together with all documents should be retained and made available to FIU.

What to Report

- The nature of the transactions
- The amount of the transaction and the currency in which it was denominated
- The date on which the transaction was conducted: and
- The parties to the transaction.
- The reason of suspicion.

Staff training

All the managers and staff of the RRBMSDL must be trained to be aware of the policies and procedures relating to prevention of money laundering, provisions of the PMLA and the need to monitor all transactions to ensure that no suspicious activity is being undertaken under the guise of money changing. Then steps to be taken when the staff come across any suspicious transactions (such as asking questions about the sources of funds, checking the identification documents carefully, reporting immediately to the PO, etc.) should be carefully formulated by RRBMSDL and suitable procedure laid down.

In case any further information /clarification is required in this regard, the “**Principal Officer**” or “**Designated Director**” may be contacted.

Principal Officer

Mr. Ashish Kumar Goel
(Compliance Officer)

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Designated Director

Mr. Ashish Kapur

Managing Director

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