

**Policy on
KYC Standards
&
Anti-Money Laundering
Measures**

**Adopted by
C. R. Kothari & Sons
Stock Broking Private Limited**

(Last reviewed on 29/07/2011)

Member: National Stock Exchange of India Ltd.

INDEX

S. No.	Topic	Pg. No.
1	Back Ground	2
2	What is Money Laundering?	3
3	Financial Intelligence Unit(FIU-IND)	4
4	Anti Money Laundering Program	5
5	Appointment of Principal Officer	6
6	Client Due Diligence	7-8
6.1	Client Acceptance Policy	7-8
6.2	Client Identification Process	9
6.3	Categorization of Clients	10
7	Recruitment & Training of Employees	11
8	Investor Education	12
9	Record Keeping & Retention of Records	13
10	Monitoring of Transactions	14
11	Identifying Suspicious Transactions	15
12	Reporting of Suspicious Transactions	16
13	Review of Policy	17
	Customer Identification Requirements–Indicative Guidelines Annexure - I	18
	Customer Identification Procedure Annexure - II	19

1. BACKGROUND:

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July 2005 and it provides for Anti-money Laundering and Anti-terrorist Financing measures to be taken in India and the rules framed there under provides guidance on the practical implementation of the provisions laid down in the Act. The Director appointed by Financial Intelligence Unit-INDIA (FIU-IND) has been conferred with exclusive and concurrent powers under relevant sections of the Act to implement its provisions. The Act imposes an obligation on banking companies, financial institutions and intermediaries associated with the securities market and registered with the Securities and Exchange Board of India (SEBI) under section 12 of SEBI Act, 1992. The stock brokers fall under the category of intermediaries under section 12 of SEBI Act, 1992, and hence the provisions of PMLA are also applicable to all the stock brokers. Establishment of Anti-money Laundering programs by Market Intermediaries are one of the central recommendations of the Financial Action Task Force (FATF).

SEBI has issued necessary directives from time to time vide its circulars covering issues related to Know Your client (KYC) norms, Anti Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT). This policy document is based on the SEBI's master circular on PMLA bearing reference no. ISD/AML/CIR-1/2010 dated February 12, 2010 and subsequent circular bearing reference no. CIR/ISD/AML/2/ 2010 dated June 14, 2010, which consolidates requirements/ obligations to be fulfilled by all the registered intermediaries. This policy will be subject to changes in order to incorporate further directives that SEBI may give vide its circulars on PMLA, from time to time.

2. WHAT IS MONEY LAUNDERING?

Money Laundering is the processing of criminal proceeds to disguise their illegal origin. It is a process by which persons with criminal intent or persons involved in criminal activities attempt to hide & disguise the true origin and ownership of the proceeds of their criminal activities, thereby avoiding prosecution, conviction and confiscation of illegal funds.

There are three common stages of money laundering as detailed below which are resorted to by the launderers and Market Intermediaries which may unwittingly get exposed to a potential criminal activity while undertaking normal business transactions:

Placement - the physical disposal of cash proceeds derived from illegal activity;

Layering - separating illicit proceeds from their source by creating complex layers of financial transactions designed to disguise the source of money, subvert the audit trail and provide anonymity;

Integration—placing the laundered proceeds back into the economy creating the impression of apparent legitimacy to criminally derived wealth.

Using the above methods the laundered proceeds re-enter the financial system appearing to be normal business funds. Market Intermediaries are therefore placed with a statutory duty to make a disclosure to the authorized officer when knowing or suspecting that any property, in whole or in part, directly or indirectly, representing the proceeds of drug trafficking or of a predicated offence, or was or is intended to be used in that connection is passing through the Market Intermediaries. Law protects such disclosures, enabling the person with information to be able to disclose the same without any fear. Market Intermediaries likewise need not fear of breaching their duty of confidentiality owed to customers.

3. FINANCIAL INTELLIGENCE UNIT (FIU)-INDIA

The Government of India has set up FINANCIAL INTELLIGENCE UNIT (FIU)- INDIA on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by Finance Minister.

FIU-IND has been established as the central national Agency responsible for receiving, processing, analyzing and disseminating information related to suspect financial transactions. FIU-IND is also responsible for co-ordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

4. ANTI MONEY LAUNDERING PROGRAM (AML)

The objective of having an AML Program is to have in place adequate policy, practice and procedure that help to prevent money-laundering activities. Such procedures would include the following:

- Appointment of Principal Officer.
- Client Due Diligence is the main part of the policy and includes following:
 - ▶ Client Acceptance Policy
 - ▶ Client Identification Procedure
 - ▶ Categorization of Clients
- Transaction monitoring to identify & report Suspicious Transactions (STR)
- Record keeping & retention of records
- Co-operating with law enforcement agencies in their efforts to trace the money laundering transactions and persons involved in such activities
- On-going training to the employees to ensure strict adherence to Customer Due diligence requirements
- Imparting investor education
- Reports to Financial Intelligence Unit-India (FIU-IND)

These procedures and standards would assist in knowing and understanding the trading activities of its existing and prospective clients and to prevent C. R. Kothari & Sons Stock Broking Private Limited (CRKSSBPL) from being used as a medium, intentionally or unintentionally for carrying out money laundering activities. The chapters ahead detail the AML program adopted by the company.

5. APPOINTMENT OF PRINCIPAL OFFICER

CRKSSBPL will identify an official from amongst the staff members to act as Principal Officer under the provisions of PMLA.

The Board of Directors shall be the competent authority for identifying the Principal and Alternate Officers. The details of appointment of the Principal Officer will be intimated to FIU-IND immediately.

RESPONSIBILITIES OF PRINCIPAL OFFICER:

The Principal Officer will ensure that:

1. The CRKSSBPL Guidelines and the Board approved PMLA policy is implemented effectively by the company.
2. The identification and assessment of potentially suspicious transactions are done on the regular basis.
3. CRKSSBPL reports the suspicious transactions to the concerned authorities within the specific time as per the PMLA policy.
4. CRKSSBPL is regularly updated regarding any changes/additions/ modifications in PMLA provisions.
5. CRKSSBPL responds promptly to any request for information, including KYC related information, made by the regulators, FIU-IND and other statutory authorities.
6. Any other responsibilities assigned by Board of directors or any other official authorized by Directors with respect to the implementation of PMLA guidelines issued by SEBI from time to time.

6. CLIENT DUE DILIGENCE:**6.1 CLIENT ACCEPTANCE PROCEDURE:**

Considering the potential threat of usage of the financial services by a money launderer, it is essential to make reasonable efforts to determine the true identity of clients. CRKSSBPL has to put in place effective procedures to obtain requisite details for proper identification of new customers.

1. ALL KYC Documentations and Procedures shall be followed at the time of account opening and no account shall be opened where CRKSBPL is unable to apply appropriate CDD measures/KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non genuine or there is perceived non cooperation of the client in providing full and complete information.
2. The submission of all documents required under this policy shall be pre- requisite for account opening for all clients. Incomplete application including incomplete documentation will be rejected. CRKSSBPL will follow the industry standard for implementing client identification procedure.
3. The authorized official /employees of CRKSBPL shall personally verify the photograph of the client affixed on the Account Opening Form [AOF) and the proof of identity documents with the person concerned. A stamp of “Identity Verified In Person” must be affixed (as a proof of In Person Verification) on the AOF against the photograph of the client & on the proof of identity documents. The authorized official of the CRKSSBPL who has done in- person verification and verified the documents with original should also sign on the AOF & ID proof.
4. Each original document shall be seen prior to acceptance of a copy. Stamp of “documents verified with originals” must be affixed along with the signature of the authorized person.
5. In case of any discrepancy or non-provision of information by the client, CRKSSBPL shall seek necessary clarification from the applicant and activate the account only when the discrepancy is resolved or the deficiency is fulfilled. For e.g. Cases where names mentioned on the AOF and that on the PAN Card do not match etc.
6. Verify the customer’s identity using reliable, independent source documents, data or information by following procedure:
 - (A) The PAN Card details should be verified with the name(s) appearing on the website of the Income Tax Department, [http://incometaxindiaefiling.gov.in/ challan/ enterpanforchallan.jsp?pAction=Post](http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp?pAction=Post). In case the name(s) do not match or the PAN Card details are not present in the PAN Card database, CRKSSBPL should seek necessary clarification from the applicant(s) and activate the account only when the discrepancy is resolved.
 - (B) CRKSSBPL should be verified details of client or potential clients from (<http://watchoutinvestor.com>) and www.worldcheck.com In case the name of clients found on the website , we have not accept these client.
 - (C) CRKSSBPL should be verified details of client or potential clients from UN Site(<http://www.un.org/sc/committees/1267/consolist.shtml>) before registered as client.
 - (D) CRKSSBPL shall maintain list of the person who have been debarred by SEBI and shall update the list on the regular basis and ensure that no client’s application is accepted if the name of such client falls in the list of debarred person maintained by CRKSSBPL.

- (E) Precaution shall be taken as far as possible before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide provided appropriate information is available to identify a person based on PAN number/address/any other appropriate information is available to CRKSSBPL from websites generally known for such purpose/information provided by SEBI/NSE.
- (F) As per guidance provided by SEBI/NSE, CRKSSBPL shall put in place necessary procedures to determine whether their existing/potential client is a politically exposed person (PEP) of foreign origin. Such procedures would include seeking additional information from clients, accessing publicly available information etc. as per guidance provided by SEBI/NSE.
6. As per guidance provided by SEBI/NSE, CRKSSBPL shall obtain sufficient information from the clients in order to identify person who beneficially owns and controls accounts.
 7. Precaution to be taken that no account is opened in a fictitious/benami name or on an anonymous basis.
 8. CRKSSBPL shall categorize its clients into low, medium and high risk as per the Client categorization procedure adopted by CRKSSBPL from time to time. Clients shall be categorized at the time of account opening with CRKSSBPL based on recommendation made by the Branch Manager/ Relationship Manager/ Sub-broker/ Authorised Person who introduces the client, information provided by the Client in KYC, information available in public domain, etc. Clients of special category as stated in the SEBI circular will be closely monitored unless the client is found to be of low/ medium risk depending upon information about the client collected through KYC, etc.
 10. The applicant shall be required to disclose his / her financial status & occupation details as required by PMLA. In case of Non Individual clients like, corporate, Trust, Partnership firms, etc. last 2 years balance sheet may be obtained.
 11. CRKSSBPL may modify the Format of Account Opening Form (AOF) to obtain the necessary information of the client in order to achieve PMLA objective.
 12. CRKSSBPL shall take reasonable measures to verify the sources of funds as well as wealth of the clients and ensure that they are routed through proper banking channels. CRKSSBPL shall reasonable steps to ensure that funds are received from a client through his bank account registered with CRKSSBPL and payment to the client will be made through 'Account Payee' cheque and/ or direct credit to the client bank account registered with CRKSSBPL. CRKSSBPL is neither accepting cash from its clients nor giving cash to its clients. As per SEBI directive, CRKSSBPL will get banker's certificate whenever a client gives demand draft.

6.2 CLIENT IDENTIFICATION PROCESS:

Customer identification means identifying the person and verifying his/her identity by using reliable, independent source documents, data or information.

CRKSSBPL need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of business relationship. Being satisfied means that CRKSSBPL is able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance with the extensive guidelines put in place. Besides risk perception, the nature of information/documents required will also depend on the type of customer (individual, corporate, Firm/ AOP etc). For customers that are natural persons, CRKSSBPL shall obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, CRKSSBPL shall

- (i) verify the legal status of the legal person/entity through proper and relevant documents
- (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person
- (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer Identification requirements in respect of a few typical cases, especially, legal persons requiring an extra element of caution are given in **Annexure- I** for the guidance of CRKSSBPL.

If CRKSSBPL decides to accept such accounts in terms of the Customer Acceptance Policy, CRKSSBPL shall take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are. An indicative list of the nature and type of documents/information that may be relied upon for customer identification is given in **Annexure – II**.

The following precautions will have to be taken by CRKSSBPL in order to ascertain that accounts are not misused by the clients or by any third parties for money laundering activities:

1. CRKSSBPL will obtain sufficient information about the client and identify actual beneficiary of transactions or on whose behalf transactions are conducted.
2. Verify client's identity
3. CRKSSBPL will register clients as per SEBI/NSE guidelines and it will develop appropriate reporting system to monitor client's trades.
4. CRKSSBPL shall periodically update all documents, data or information of all clients and beneficial owners collected under CDD process provided the client provides the information.
5. CRKSSBPL shall ensure that maker-checker facility is in place for all its operation as a risk management measure as well as to increase efficiency. In case of mismatch of signature/s on PAN and the AOF, CRKSSBPL shall ask for an alternate proof of identity bearing client's signature as put on AOF or bank verification of the signature.
6. In case a new client is Politically Exposed Person (PEP) or a new client is a relative of PEP then such client activation must be done only after getting prior approval of Compliance Officer. Compliance Officer's approval will also be taken when a existing client become PEP at later stage.

6.3 CATEGORIZATION OF CLIENTS:

CRKSSBPL shall accept the clients based on the risk they are likely to pose. For this purpose, CRKSSBPL shall categorise the clients under low risk, medium risk and high risk category based on appropriate Customer Due Diligence process.

LOW RISK:

Low risk clients are those who are likely pose low or nil risk as per the PMLA policy. Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. They can be following:

1. Salaried Individuals.
2. Corporate which are providing financial details of last two years and identity of the beneficial owner is disclosed.
3. Government employees and government owned companies.
4. HNI's who have respectable social and financial payments.
5. Businessman whose identity and source of wealth is easily identified and who is complying with maximum KYC disclosures.
6. Clients who does not fall in the above mentioned points and who provide maximum information as per KYC and exhibits transparency
7. Clients which have been introduced by brokers/branch managers and they have known them personally and have faith in their genuineness.

MEDIUM RISK:

Customers that are likely to pose medium risk to CRKSSBPL may be categorized as medium risk such as:

1. Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
2. Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
3. Clients delegating authority of operation of their trading & beneficial accounts to any of their immediate family members.

HIGH RISK

1. Entities into foreign exchange business.
2. High Networth individuals whose identity and source of wealth is difficult to identify.
3. Trusts, charities, NGOs and organizations receiving donations,
4. Politically Exposed Persons (PEPs)
5. Those with dubious reputation as per public information available, etc.
6. Clients in high risk countries as announced by appropriate authority from time to time

7. RECRUITMENT & TRAINING OF EMPLOYEES

CRKSSBPL shall ensure adequate screening procedures at the time of hiring its staff. It shall also ensure that the employees dealing with PMLA requirements are suitable and competent to perform their duties.

CRKSSBPL will conduct PMLA awareness program for its existing employees to ensure that they are aware of their obligations under the provisions of PMLA. CRKSSBPL will ensure that the new staff recruited by them is also given initial PMLA awareness training.

The Principal Officer will also impart periodical refresher training to the staff to keep them updated on new developments and to communicate any changes in the policies, procedures etc.

CRKSSBPL shall send periodic e-mails/post to the Staff/Sub-Brokers/Branch Manager for creating awareness on PMLA.

8. INVESTOR EDUCATION

CRKSSBPL will upload its PMLA policy with changes in the policy from time to time on its website for creating awareness amongst the investors.

9. RECORD KEEPING & RETENTION OF RECORDS

PMLA stipulates that all relevant documents like AOF and their supporting documents and all instructions for operating the account given by Client or its duly registered Power of Attorney should be maintained at least for a minimum period of 10 years after the account is closed. In cases where the records relate to on-going investigations or transactions that have been a subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

In view of this, CRKSSBPL shall maintain the records in terms of the provisions of PMLA. The retention period shall be modified on receiving appropriate instructions from any regulatory authority like SEBI, FIU-IND or any other statutory authority.

10. MONITORING OF TRANSACTIONS

CRKSSBPL shall pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

The Compliance Department shall ensure adherence to the KYC policies and procedures. Internal Auditors shall specifically check and verify the application of KYC procedures and comment on the lapses if any observed in this regard. All staff members shall be provided training on Anti Money Laundering. The focus of training shall be different for frontline staff, compliance staff and staff dealing with new customers.

The Compliance Department shall randomly examine a selection of transactions/clients and comment whether any suspicious transactions are done or not. While monitoring the transactions, CRKSSBPL may shift the clients from one category to another depending upon the risk perceived by CRKSSBPL

11. IDENTIFYING OF SUSPICIOUS TRANSACTIONS

CRKSSBPL shall maintain records of debits and credits of transactions through various services to the clients, as per their specific instructions.

The Rules notified under the PMLA defines a “suspicious transaction” as a transaction whether or not made in cash which, to a person acting in good faith-

- a) Give rise to reasonable ground of suspicion that it may involve proceeds of crime
- b) Appears to be made in circumstances of unusual or unjustified complexity; or
- c) Appears to have no economic rationale or bonafide purpose.

Indicative List of suspicious transactions for Broking Account are:

- False Identification documents submitted by the client at time of account opening.
- Doubt over the real beneficiary of the account.
- Suspicious background or links with known criminals.
- Unusual activity compared with past transactions.
- Sudden activity in dormant accounts.
- Unexplained transfer among multiple accounts without any rationale /reason.
- Regular transfers from multiple accounts to a single common BO account.
- Unusual high turnover of transactions in comparison with disclosed income

12. REPORTING OF SUSPICIOUS TRANSACTIONS:

The concerned department's staff i.e Client Relation/Settlement/Compliance shall monitor all transactions executed by clients and report to the Principal Officer any transaction that appears to be of suspicious nature. Also system generates file of suspicious transactions based on few set parameters and informs CRKSSBPL staff to download such data for further investigation. The Principal Officer shall analyze and examine such data and then decide if any transaction listed therein warrants a closer inspection or not. He shall maintain the records of all such data received from authority and record the action taken against any client for suspicious transactions.

In case the Principal Officer comes across any transaction that appear to be of suspicious nature, he shall also submit the report of such transactions directly to The Director, FIU-IND in the prescribed format, within seven working days of establishment of suspicion.

CRKSSBPL shall not put any restriction on operation in the accounts of any client where an STR has been made and the same has been reported to FIU-IND. PLPL shall also be prohibited from disclosing the same to the client for whom the STRs have been reported to FIU-IND. However, in exceptional circumstances consent may not be given to continue to operate the account, and transaction may be suspended.

13. REVIEW OF POLICY

The aforesaid AML policy shall be reviewed periodically with regard to testing its adequacy to meet the compliance requirements of PMLA 2002. The Principal Officer shall be the authority to give directions to undertake additions, changes, modifications etc. as directed by SEBI/ FIU-IND.

Annexure- I

Customer Identification Requirements – Indicative Guidelines

Particulars	Guidelines
Trust/Nominee or Fiduciary Accounts	There exists the possibility that trust/nominee or fiduciary accounts can be used to circumvent the customer identification procedures. CRKSSBPL should determine whether the customer is acting on behalf of another person as trustee/nominee or any other intermediary. If so, CRKSSBPL shall insist on receipt of satisfactory evidence of the identity of the intermediaries and of the persons on whose behalf they are acting, as also obtain details of the nature of the trust or other arrangements in place. While opening an account for a trust, CRKSSBPL should take reasonable precautions to verify the identity of the trustees and the settlers of trust (including any person settling assets into the trust), grantors, protectors, beneficiaries and signatories. Beneficiaries should be identified when they are defined. In the case of a 'foundation', steps should be taken to verify the founder managers/ directors and the beneficiaries, if defined.
Accounts of companies and firms & AOP	CRKSSBPL need to be vigilant against business entities being used by individuals as a 'front' for maintaining accounts with brokers. CRKSSBPL should examine the control structure of the entity, determine the source of funds and identify the natural persons who have a controlling interest and who comprise the management. These requirements may be moderated according to the risk perception e.g. in the case of a public company it will not be necessary to identify all the shareholders. But at least promoters, directors and its executives need to be identified adequately.
Accounts of Politically Exposed Persons (PEPs) resident outside India	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. CRKSSBPL should gather sufficient information on any person/customer of this category intending to establish a relationship and check all the information available on the person in the public domain. CRKSSBPL should verify the identify of the person and seek information about the sources of funds before accepting the PEP as a customer. CRKSSBPL should seek prior approval of their concerned Heads for opening an account in the name of PEP.

Annexure-II

Customer Identification Procedure Features to be verified and documents that may be obtained from Customers

Features Documents

Accounts of individuals	<ol style="list-style-type: none"> 1. Legal name and any other names used 2. Correct permanent address <ol style="list-style-type: none"> (i) Passport (ii) PAN card (iii) Voter's Identity Card (iv) Driving licence (v) Identity card (subject to the satisfaction of the branch) (vi) Letter from a recognized public authority or public servant verifying the identity and residence of the customer to the satisfaction of branch (vii) Telephone bill (viii) Broker account statement (ix) Letter from any recognized public authority (x) Telephone bill (xi) Electricity Bill (xii) Ration Card (xiv) Letter from the employer, (subject to the satisfaction of the branch) (xv) Any other document which provides customer information to the satisfaction of the broker will suffice.
Accounts of companies	<ol style="list-style-type: none"> 1. Name of the company 2. Principal place of business 3. Mailing address of the company 4. Telephone/Fax Number <ol style="list-style-type: none"> (i) Certificate of incorporation and Memorandum & Articles of Association (ii) Resolution of the Board of Directors to open an account and identification of those who have authority to operate the account (iii) Power of Attorney granted to its managers, officers or employees to transact business on its behalf (iv) Copy of PAN allotment letter (v) Copy of the telephone bill
Accounts of partnership firms	<ol style="list-style-type: none"> 1. Legal name 2. Address 3. Names of all partners and their addresses 4. Telephone numbers of the firm and partners <ol style="list-style-type: none"> (i) Registration certificate, if registered (ii) Partnership deed (iii) Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf (iv) Any officially valid document identifying the partners and the persons holding the Power of Attorney and their addresses (v) Telephone bill in the name of firm/partners
Accounts of trusts & foundations	<ol style="list-style-type: none"> 1. Names of trustees, settlers, beneficiaries and signatories 2. Names and addresses of the founder, the managers/directors and the beneficiaries 3. Telephone/fax numbers <ol style="list-style-type: none"> (i) Certificate of registration, if registered (ii) Power of Attorney granted to transact business on its behalf (iii) Any officially valid document to identify the trustees, settlors, beneficiaries and those holding Power of Attorney, founders/managers/ directors and their addresses (iv) Resolution of the managing body of the foundation/association (v) Telephone bill

