



## **Guidelines**

**On**

### **Anti-Money Laundering Standards [Prevention of Money Laundering Act, 2002 (PMLA)]**

**Bharathi Share Broking Private Limited**

This policy is applicable for all segments including Cash, Equity Derivatives, Currency derivatives, Interest rate Derivatives, SLB and all other segments in relation to all exchanges related to Bharathi Share Broking Private Limited

## I.INTRODUCTION:

Money Laundering is the process by which large amounts of illegally obtained money (from drug trafficking, terrorist activity or other serious crimes) is given the appearance of having originated from a legitimate source. All crimes that produce a financial benefit give rise to money laundering

1. The **Prevention of Money Laundering Act, 2002 (PMLA)** has been brought into force with effect st from 1 July 2005. Necessary Notifications / Rules under the said Act have been published in the st Gazette of India on 1 July 2005 by the Department of Revenue, Ministry of Finance, Government of India.

2. As per PMLA, 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, transactions include:

- 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 been valued below Rs 10 lakhs or its equivalent in foreign currency, such series of transactions within one calendar month.
- *All transactions involving receipts by non-profit organisations of value more than rupees ten lakh, or its equivalent in foreign currency*
- All suspicious transactions 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.

3. The Anti – Money Laundering Guidelines provides a general background on the subjects of



money laundering and terrorist financing in India and provides guidance on the practical implications of the PMLA. The PMLA Guidelines sets out the steps that a registered intermediary and any of its representatives, need to implement to discourage and identify any money laundering or terrorist financing activities.

#### 4. 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 the Finance Minister.

FIU –INDIA has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU INDIA is also responsible for coordination and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.



## **II . OBJECTIVE OF PMLA :**

The main objectives of the PMLA are as follows:

1. To have a proper Customer Due Diligence (CDD) process before registering clients.
2. To monitor/maintain records of all cash transactions of the value of more than Rs.10 lacs.
3. To maintain records of all series of integrally connected cash transactions within one calendar month.
4. To monitor and report suspicious transactions.
5. To discourage and identify money laundering or terrorist financing activities.
6. To take adequate and appropriate measures to follow the spirit of the PMLA.

## **III. IMPLEMENTATION OF THIS POLICY:**

Mr. D. Bangaru Babu is the principal officer who is responsible for compliance of the provisions of the PMLA and AML Guidelines acts as a central reference point and plays an active role in identification and assessment of potentially suspicious transactions.

He ensures that Bharathi Share Broking Private Limited discharges its legal obligations to report suspicious transactions to the concerned authorities.

Bharathi Share Broking Private Limited being an SEBI registered intermediaries have to comply with spirit of anti-money laundering provisions. To comply with PMLA, the following three specific parameters should be observed, which are related to the overall '**Client Due Diligence Process**':

- A. Policy for acceptance of clients;
- B. Procedure for identifying the clients;
- C. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR).

### **Client/Customer Due Diligence (CDD):**

For the purpose of CDD, as Bharathi Share Broking Private Limited is dealing mainly with Non-



Institutional clients. According to SEBI regulation/rules Institutional clients includes:

- Banks
- Mutual Funds
- Foreign Institutional Investors (FII)
- Financial Institutions
- Insurance Companies

All other categories of clients viz. Individuals, HUFs, Trusts, Partnership Firms, Other Companies other than mentioned above etc. are considered as non- Institutional Clients.

According to SEBI, all trades done by client should be settled by Clearing Members. Clearing member makes sure that the trades are settled for all retail clients.

In view of above, following steps to be taken to comply with 'Customer Due Diligence' process before registering as client:

- Obtain basic details for the purpose of the complying with KYC norms prescribed by SEBI (KYC, basically contains basic details of the client like, Name, Address, Occupation, Income level, DP details, Bank Account Details, Details of other Broker where the client is already registered etc).
- List of Directors and authorized person to trade on behalf of client and copy of Board resolution to that effect in case the client is Non Individual.
- Obtain Proof of Identity, Proof of Address after verifying with originals, A recent photograph and such other documents including in respect of his business and financial status of the client
- Intended nature of business relation.
- Custodian details (if any) with whom client trade to be settled.
- Obtain PAN No. (Income Tax number).
- Obtain Risk Disclosure Document duly executed by prospective client as prescribed by SEBI.
- Physical verification of the client address.
- verify identity while carrying out:
  1. *transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or*
  2. *any international money transfer operations*
- Identify the Beneficial owner and take all reasonable steps to verify his/her identity
- No anonymous account / fictitious account to be opened
- Where the client is a juridical person , it should be verified that any person purporting to act on behalf of such client is so authorized and verify the identity of that person.

***The client/customer due diligence (CDD) measures comprise the following:***

**Client Information & Identity:**

Before registering client, obtain Antecedent information. Verify independently information submitted by client but not limited to his identity, registered office address, correspondence



address, contact details, occupation, Promoters/Directors, source of income, experience in securities market, PAN no, SEBI registration Number, (if any), MAPIN Number (if any) etc. Obtain as much information as can be collected. Generally Retail client are recognize at local level. We shall check the local references for clients identity and other credit details including those mentioned above or we can refer any other reliable, independent source documents, data or information. should be approved by Account Opening Team shall open the Client Account after verifying information collected, registration form along with other supporting documents.

#### **Beneficial ownership and control :**

After completing registration process, client account should be verified by independent employee to check the actual beneficial ownership and control of the particular account. We need to obtain the details with respect to Shareholders, promoters from the non individual clients and wherever possible it has to be verified independently. Also verify the sources of funds for funding the transaction. We also have to take care at the time of settlement regarding nature of transaction, movement/source of transaction, etc. Periodically to ask for clients financial details to determine the genuineness of transaction.

For this purpose, “**beneficial owner**” is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

#### **Ongoing due diligence and scrutiny:**

Periodically we need to conduct due diligence and scrutiny of client’s transaction and accounts to ensure that transactions are being conducted in knowledge, to find out the risk profile, source of funds, etc. At regular interval, ongoing due diligence and scrutiny need to be conducted i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the Organisation’s knowledge of the client, its business and risk profile, taking into account, where necessary, the customer’s source of funds. We need to periodically update all documents, data or information of all clients and beneficial owners collected under client due diligence process.

#### **A. Policy for acceptance of clients:**

Before registering client, we need to identify and verify the following details of the prospective client:

1. Ascertain the category of clients before registration as Client.(i.e. Individual or Non Individual, FII, Mutual Fund, PMS or other).
2. Obtain all necessary documents for registration. (Photograph, Photo Identity, Proof of Address, copy of PAN, etc). Documents should be verified with original and same to be counter signed by Authorised representative of the organization.

3. Obtain copy of Bank Statement for ascertaining the mode of payment of transaction.
4. Registration of clients to be made on physical presence of the prospective client.
5. Obtain antecedent details of the prospective client.
6. Ensure that account should not open in fictitious or benami name.
7. Clients occupation, sources of income.
8. Determine the parameter to categories of client as per risk.
9. Ensure that all details of KYC form should be complete in all respect. Incomplete KYC should not accept by organization.
10. Organisation should not register client in case any kind of doubt has been raised by client (i.e. unable to submit required form/proof, any suspicious behavior noticed at the time of registration, etc)
11. Account should not open where organization can not apply Customer Due Diligence/ KYC policies.
12. The client accounts should be scrutinised regularly for determining nature of transaction taken place. In case any suspicious transaction arisen, the account should be freezed or securities/money should not be delivered to client. The suspicious transactions shall be reported to the FIU as well as the respective exchanges or depository where transactions have taken place.

The following safeguards are to be followed while accepting the clients:

- a) Security account should not be opened in a fictitious/ benami name or on an anonymous basis.
- b) Risk perception of the client need to defined having regard to:
  1. Clients' location (registered office address, correspondence addresses and other addresses if applicable);
  2. Nature of business activity, trading turnover etc., and
  3. Manner of making payment for transactions undertaken.

The parameters of clients into **low, medium and high risk** should be classified. Clients of special category (as given below) may be classified as higher risk and higher degree of due diligence and regular update of KYC profile should be performed.



c) Documentation like KYC, Broker-client agreement and Risk Disclosure Document and other information from different category of client prescribed by SEBI and any other regulatory authority to be collected depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.

d) Ensure that a client account is not opened where the organization is unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the organization is suspected to be non-genuine, perceived non-cooperation of the client in providing full and complete information. Discontinue to do business with such a person and file a suspicious activity report.

We can also evaluate whether there is suspicious trading in determining whether to freeze or close the account. Should be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, we can consult the relevant authorities in determining what action it should take when it suspects suspicious trading.

e) We need to comply adequate formalities when client is permitted to act on behalf of another person/ entity. It should be clearly specified in manner the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. The rights and responsibilities of both the persons (i.e. the agent-client registered with Bharathi Share Broking Private Limited, as well as the person on whose behalf the agent is acting) should be clearly laid down. Adequate verification of a person's authority to act on behalf the customer should also be carried out.

f) Necessary checks and balance to be put into place 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.

g) The CDD process to be necessarily revisited when there are suspicions of money laundering or financing of terrorism

h) We also need to check that the list of individuals and entities put up on the United nations website <http://www.un.org/sc/committees/1267/consolist.shtml> which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc as approved by Security Council Committee established pursuant to various United Nations Security Council Resolutions (UNSCRs) are included in the SEBI debarred list and the clients with similar details would be reviewed through IPV, address and background verification.

i) The number of account that a client is having with Bharathi Share Broking Private Limited



shall be always restricted to the statutory limits as prescribed by SEBI or any other regulatory Body. If there are no limits prescribed, we shall understand all such account shall be jointly monitored.

### ***Acceptance of clients through Risk – Based Approach***

The clients 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. We should apply each of the clients due diligence measures on a risk sensitive basis. Based on the client categorization, we 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, we should obtain type and amount of identification information and additional documents necessarily depend on the risk category of a particular customer. Further low risk provisions should not apply when there are suspicions of Money laundering/financing of terrorism or when other factors give rise to a belief that the customer does not in fact pose a low risk.

### ***Clients of special category (CSC):***

CSD clients include the following: -

1. Non-resident clients (NRI);
2. Trust, Charities, NGOs and organizations receiving donations;
3. Companies having close family shareholdings or beneficial ownership;
4. Politically exposed persons (PEP) of foreign origin, family members or close relatives of PEP's
5. 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);
6. Companies offering foreign exchange offerings;
7. 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;
8. Clients with dubious reputation as per public information available etc.;

The above mentioned list can be modified depending on the categories of clients and we should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.



As per this policy all clients would be treated at par except as mentioned above. For all these clients transaction level monitoring would be carried out. Based on this monitoring, whether or not a client is large, small, HNI, Retail, if any suspicious transaction is observed, the client would be treated as high risk. Further if any further such activities, string of activities, multiple instances are observed, then the clients account would be closed.

## **B. Client identification procedure:**

**To follow the Client Identification procedure we need to follow following factors:**

The 'Know Your Client' (KYC) policy should be strictly observe with respect to the client identification procedure which need to be carried out at different stages i.e. while establishing the Broker– client relationship, while carrying out transactions for the client or when have any doubts regarding the veracity or the adequacy of previously obtained client identification data.

The client should be identified by using reliable sources including documents / information. Obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

Appropriate Risk management systems to be put in place to determine whether the client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic database of PEPS.

Reasonable measures to be taken to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.

The information should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed in compliance with the Guidelines. Each original documents should be seen prior to acceptance of a copy and it is verified and signed by Compliance Officer or personnel as designated by him for such purposes, being without limitation the account opening staff at branches and sub brokers.

Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority within the organization.

SEBI has prescribed the minimum requirements relating to KYC for certain class of the registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms, internal guidelines should be follow in dealing with clients and legal requirements as per the established practices. Also maintain continuous familiarity and follow-up where it notices inconsistencies in the information provided by the client. The principles enshrined in the PML Act, 2002 as well as the SEBI Act, 1992 should follow, so that organization is aware of the clients on whose behalf it is deali



### ***Record keeping:***

For the purpose of the record keeping provision, we should ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PML Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

Records to be maintain as are sufficient to permit reconstruction of individual transactions (including the nature of transaction, amounts and types of currencies involved, date of the transaction and the parties to the transactions if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

Should there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, Organisation should retain the following information for the accounts of their customers in order to maintain a satisfactory audit trail:

- a. the beneficial owner of the account;
- b. the volume of the funds flowing through the account; and
- c. for selected transactions:
  - the origin of the funds;
  - the form in which the funds were offered or withdrawn, e.g. cash, cheques, etc.;
  - the identity of the person undertaking the transaction;
  - the destination of the funds;
  - the form of instruction and authority.

Organization should ensure that all client and transaction records and information are made available on a timely basis to the competent investigating authorities.

### ***Retention of Records :***

The following document retention terms should be observed:

- a. All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period of ten years (10) from the date of cessation of the transaction i.e. date of termination of an account or business Relationship.
- b. Records on customer identification (e.g. copies or records of official identification documents like PAN card, passports, identity cards, driving licenses or Voter Identity Card or similar documents), account files and business correspondence should also be kept for the ten years (10) from the date of cessation of the transaction.
- c. Records of the all trading details of the client needs to be stored for Ten years
- d. Records shall be maintained in hard & soft copies. Records should be maintained of all transactions and not merely the transactions that are reported to FIU-IND

In situations where the records relate to on-going investigations or transactions, which have been the subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

#### ***Monitoring of transactions :***

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

Special attention required to all complex, unusually large transactions / patterns which appear to have no economic purpose. Internal threshold limits to specify for each class of client accounts and pay special attention to the transaction which exceeds these limits. The background including all documents, office records and clarifications pertaining to such transactions and their purpose to be examined carefully and findings thereof to be recorded in writing. Such findings, records and related documents to be made available to auditors and also to SEBI/Stock Exchanges/FIU-IND/Other relevant authorities, during audit, inspection or as and when required. These records to be preserved for ten years as required under PMLA 2002

It should be ensured that record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate law authority. Suspicious transactions should also be regularly reported to the higher authorities / head of the department.

Further, the Compliance Department should randomly examine a selection of transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

#### **C. Suspicious Transaction Monitoring & Reporting:**

For the purpose of suspicious transactions reporting, apart from ‘transactions integrally connected’, ‘transactions remotely connected or related’ need to be considered.

**“Suspicious transactions”** means a transaction relating to *deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical* whether or not made in cash which to a person acting in good faith –

- (a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of an offense specified in the schedule to the act regardless of the value involved ; ; or
- (b) appears to be made in circumstances of unusual or unjustified complexity or
- (c) appears to have no economic rationale or bonafide purpose.; or
- (d) Gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism ;

Whether a particular transaction is suspicious or not will depend upon the background details of the client, details of the transactions and other facts and circumstances. Followings are the circumstance, which may be in the nature of suspicious transactions: -

- 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 other clients based in high risk jurisdictions;
- d. Substantial increases in business volume 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. Off market transactions in the DP account of the clients.
- i. High trading activity in the relatively illiquid scrips.
- j. Major trading activity in the Z and T toT category scrips.

k. Options trading wherein client has booked unusual profit or loss which does not commensurate with the changes in the prices of underlying security in the cash segment.

l. High exposures taken by client as compared to income levels informed by clients.

m. Unusual transactions by “Client of Special category (CSCs)” and businesses undertaken by offshore banks /financial services, businesses reported to be in the nature of export-import of small items.

Any suspicion transaction need to be notified immediately to the Money Laundering Control Officer or designated Principal Officer. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it should be ensured that there is continuity in dealing with the client as normal until told otherwise and the client should 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. The Principal Officer, compliance, risk and surveillance team should have timely access to customer identification data, CDD information transaction records and other relevant information. The Principal officer shall report to the Board of Directors and to the Director Operations jointly. Further the employees shall *keep the fact of furnishing information in respect of transactions referred to above strictly confidential*

Clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards published by FATF on its website ([www.fatf-gafi.org](http://www.fatf-gafi.org)), which are categorized as “clients of Special Category” to be subjected to appropriate counter measures. Measures which include enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and application of enhanced due diligence at the time of expanding business relationships with the identified country or persons in that country to be implemented. Also steps to be taken to independently access and consider other publicly available information.

It should be ensured that irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA 2002 , STR is filed if there are reasonable grounds to believe that the transactions involve proceeds of crime.

## **Employees’ Hiring/Employee’s Training/ Investor Education**

### **Hiring of Employees**

There should be adequate screening procedures in place to ensure high standards when hiring employees. Key positions within our organization structure should be identified with regards to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.



## **Employees' Training**

There must be an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements should have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new customers. It is crucial that all those concerned fully understand the rationale behind these guidelines, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

## **Investors Education**

Implementation of AML/CFT measures requires us to demand certain information from investors which may be of personal nature or which have hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the customer with regard to the motive and purpose of collecting such information. There is, therefore, a need for us to sensitize customers about these requirements as the ones emanating from AML and CFT framework. We would prepare specific literature/ pamphlets etc. so as to educate the customer of the objectives of the AML/CFT programme.

## **Designated Principal Officer for Compliance with the provision of “Prevention of Money Laundering Act, 2002 [PMLA]:**

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