

PREVENTION OF MONEY LAUNDERING ACT (PMLA)

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Circular Reference: SEBI has vide its circular No. ISD / CIR / RR / AML / 1 / 06 dated January 18, 2006 & CDSL Communique 2236 dated Jan 6, 2011 & 4309 dated Mar 13,2014 has made it mandatory for every intermediary including stock brokers, DP and asset management service providers to have written policy on Prevention of Money Laundering by February 16, 2006 and also to appoint an office for reporting suspicious transactions to authorities. Policies updated as per master circular of SEBI SEBI/HO/MIRSD/DOP/CIR/P/2019/113 dated 15.10.2019.

Reviewed on 15th April 2024

Approved on 17th April 2024

1. Background:

Money laundering is defined as disguising the source or ownership of illegally obtained/ gained funds/money to make them appear arising out of legitimate source or hiding money to avoid paying taxes and thereby converting black money into white money or using legally obtained money in pursuit of unlawful activities.

Money laundering takes place in three phases. The first phase is placement when bulk cash is deposited into banking system or pumped into any legitimate system using funds from illegal activities. The Second phase is layering where multiple transactions are used to separate the proceeds from their illegal source. The third phase is integration where these illegal funds are mixed with apparently legitimate business earnings.

2. Statement of Policy

Most developed countries (including Australia, Hong Kong, Singapore, Taiwan and the UK) have laws making it a criminal offence for a company or an individual to assist in the laundering of the proceeds of serious crime.

The Firm conducts its business in conformity with all laws and regulations of the jurisdictions in which it transacts business. In order to ensure that the Firm meets its legal obligations, everyone must be mindful of the problem of money laundering and constantly vigilant for signs of such activity. Every effort must be made to "know" and verify the identity of the Firm's customers, to be aware at all times of what might constitute a suspicious transaction or suspicious counterparty behavior, to adhere to appropriate account opening and record-keeping procedures for reporting suspicious circumstances to your Manager..

Recognizing and combating money laundering: "Know Your Customer" The types of transactions which may be used by a money launderer are almost unlimited, making it difficult to define a suspicious transaction. It is, however, reasonable to question a transaction which may be inconsistent with an investor's known, legitimate business or personal activities or with the normal business for that type of investor. Hence, the first key to recognition is to "know your customer". Employees should be sensitive to potential warning signs of money laundering.

When establishing a relationship, maintaining a relationship or providing services, especially when dealing with a client infrequently, all reasonable steps must be taken to determine, to verify where necessary, and to remain apprised of the identity, financial position and business objectives of the client. Client identification must be carried out before any dealing takes place and the Firm's account opening form must be completed and processed for every new account.

3) Customer Due Diligence Measures:

✧ **New Client Registration:**

- ✧ Identify Customer Identity. No account should be opened in fictitious name/benami name
- ✧ Customer should be physically present at the time of account opening. In the case of an online account opening, client identification needs to match the live video along with either the original document or the authentication factor provided by the company.
- ✧ Verify proof of Identity, address and original Bank verification. Further, documents will be rely downloaded from Digilocker, Already KYC registered with KRA with verified status.
- ✧ Document requirements and other information collected from the clients as provided by the SEBI & KYC norms.
- ✧ No account should be opened for client for whom no due diligence can be done by at least one of the employees.
- ✧ Don't open account to clients who does not co-operate to provide basic details
- ✧ Don't open account for client who has even been convicted of offence involving moral turpitude or any criminal offence or has any criminal background It is statutorily required to provide details of clients to authorities, who fails to provide satisfactory evidence of identity
- ✧ No other clients are allowed to place orders on behalf of the clients. Customers can place order by Calling our helpdesk if he/she does not have access to internet or other similar reasons. The client will be asked to answer one or two questions from his / her personal profile to check the validation of the client while accepting the order. If the client answered correctly, the Admin. Team will accept the request and place the order into the system or else the request will not be entertained.
- ✧ Client due diligence will be done on annual basis.

Classification of Clients-

The Risk Assessment is required in order to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment will also consider any country specific information that is circulated by the Government of India , SEBI and Exchanges from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions Broadly speaking clients can be specified in following three categories.

Low risk clients

Low risk client includes clients who satisfy following criteria:

- ✧ Senior Citizens, Salaried Employees and a major portion of client who indulge in delivery based trading.
- ✧ One who provides all documents at the time of account opening without any delay?
- ✧ Always provide securities and funds in Places order within reasonable period

Medium risk client: Clients falling under the definition of Speculators, Day Traders and all clients trading in Futures and Options segment

High risk client & Special Category classification:

1. Non resident clients
2. High net worth clients,
3. Trust, Charities, NGOs and organizations receiving donations.
4. Companies having close family shareholdings or beneficial ownership
5. Politically exposed persons (PEP) of foreign origin.
6. 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) .

Further client once categorized as low risk client can be later categorized as high risk or vice versa depending on the nature of transactions and client behaviour and client owner periodical report of his/her client.

Trading Accounts for PEP clients will be processed only after Management Approval and the systems are available.

Acceptance of Unique E-Mail ID & Mobile No. from Clients for Trading & DP Accounts:

This has reference to SEBI circular CIR/MIRSD/15/2011 dated August 02, 2011, Exchange circulars NSE/INVG/21841 dated October 4, 2012, NSE/INSP/27339 dated August 12, 2014 and NSE/INSP/27368 dated August 18, 2014 regarding Updation of E-mail IDs and mobile numbers of clients. Our Management has decided to implement the acceptance of Unique Contact details such as E-mail ID & Mobile No. from the clients for all their Trading and DP Accounts opening through us.

Exchange has clubbed the open positions to check for position limit violations at client level & any violation will attract penalty provisions as per circular MCX/S&I/331/2016 dated September 29, 2016. In accordance with circular no. MCX/S&I/331/2016 dated September 29, 2016, Exchange has clubbed the client codes with common/same mobile numbers or e-mail ids registered under Trading Member and these clients attract the provisions / patterns such as 'persons acting in concert', through common ownership and / or control structure or same family / group, based on same Email and Contact Details.

Continuous Due Diligence:

- ✦ It is the duty of every organisation to satisfy himself about the financial soundness and investment objectives of the client
- ✦ Every organisation should carry on independent grading of his/ her client on periodical basis (say 18 or 12 months) and intimate Compliance department of his finding highlighting adverse change in grading.
- ✦ Portfolio/Investment size/order sizes are commensurate with annual income disclosed by client
- ✦ Verify sources of fund disclosed by clients
- ✦ Maintain continuous familiarity and follow up with clients where any inconsistency in the information is provided.
- ✦ Back office members should immediately inform Operations head/ Accounts head who in turn will inform Principal Officer about any transaction which is inconsistent with client regular trading activity or if funds and securities are coming from account other than account specified by client or if they receive request to transfer fund or security to account.

- ✦ other than designated account.
- ✦ Stop continue to do business with client doing suspicious transaction and inform compliance department for further reporting of suspicious activity to authorities
- ✦ Never make client aware of your suspicion
- ✦ CDD will be revisited as and when it is required

4) Record Keeping/ Retention of records:

All documents should be preserved for 8 years as per PML Act, this includes books of accounts, agreements, duplicate copies of contract notes, recorded messages, order books Provided for active account documents like KYC, agreement, passports, PAN card copy, driving license, bank letter etc should be preserved permanently Further provided that if any proceeding is pending against the Company conducted by any authorities these documents should be preserved till the disposition of proceeding i.e. until it is confirmed that case is closed.

Provided further that in case account is closed if it was inactive for X no. of years then documents should be maintained for 8 years from date of closure. For accounts which are freezed on our own account or on receiving order from authorities all document should be preserved until final disposition of case to the satisfaction of authorities.

Maintain records e.g. order slip or any piece of document which in future can help in reconstruction of individual transaction. To provide audit trails to authorities for potential money laundering activities following information's should be retained for reasonable period of time:-

- i. Beneficial owner of account
- ii. Volume of fund flowing through account

For selected transactions:

- ⤴ The origin of funds;
- ⤴ Form in which fund was offered
- ⤴ Form in which fund was withdrawn e.g. cash, cheques etc.
- ⤴ Identity of person taking transaction
- ⤴ Destination of fund and securities
- ⤴ Form of instruction and authority Monitoring of Transactions and Reporting

Any transaction of retail clients of value exceeding 10 lacs should be reported to compliance department if its an irregular transaction, transaction is irregular (I) if the size of order is not commensurate with client income level disclosed or if its more than his usual order size. (ii) If the order is placed by dormant client i.e. order placed by client after a period of 6 monhs or 1 year from his/her last transaction.

Any transaction which does not make economic sense or is complex or unusually large should be immediately brought to the notice of respective head of department and Compliance department.

All documents, slips, recordings etc. related to any suspicious transactions should be preserved as per record keeping policy. Compliance Department will do random checking from transaction value of which exceeds 10 lacs on monthly basis and report its finding to management and if necessary to relevant authorities.

5) Monitoring of Transactions / Suspicious transaction Monitoring and reporting

Any transaction/ order which arises the suspicion of any employee should be diligently and immediately informed to compliance department.

List of blacklisted client and suspicious clients will be maintained for reference of employees. Whereas no trading should be done for clients mentioned in blacklist for trading of clients in suspicious list one has to be vigilant.

All the persons who are debarred / warned by SEBI/Exchanges to access capital market will be blacklisted clients or any client against whom firm has reported to authorities for alleged money laundering activities and matter is still pending before or order is given against client.

An illustrative list is provided below for reference of employees as what could be a suspicious transaction.

- ⤴ Clients whose identity verification seems difficult or clients appears not to cooperate
- ⤴ Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
- ⤴ Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
- ⤴ Requests to transfer securities to third parties with or without any known connection

- ⤴ The transaction is not in keeping with the counterparty's normal activity.
- ⤴ The transaction is unusual, e.g., with respect to normal market size and frequency.
- ⤴ There is an unusual and unnecessary involvement of an intermediary.
- ⤴ The transaction is not settled in the normal manner, e.g., an offer to settle in cash or settlement by registration or delivery of securities to a third party.

Any suspicion transaction should be immediately notified to the Money Laundering Control Officer / Principal Officer or any other designated officer within the intermediary. 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.

Any transaction notified by Principal Officer as a suspicious one, it will be reported to FIU-India within 7 days to the address mentioned below. **The Director, FIU-India, 6th Floor, Hotel Samrat, Chanakyapur, New Delhi – 110021.**

6) Principal Officer:

Principal Officer shall be responsible for reporting suspicious transactions to the authorities and in identification assessment of potentially suspicious transactions.

7) Employee 's Hiring / Training:

Recruitment: We use internal recruiting methods (like Employee Referral and known sources of Management) to identify the candidates for open positions.

Interviews: Applicant will not undergo any test or medical examinations. We will be conducting a personal interview with the candidate in our Office.

Offer: If the required skill set is available with the candidate, we will make an oral offer of employment to the candidate, which, if accepted, is followed by a written offer of employment from our Head Office.

We have policy for ongoing employee training programme to all the staffs of our company aware of the provisions of AML and PMLA procedures. Every employee must undergo anti money laundering training within a week of joining firm. It is duty of every Departmental head to ensure that every new recruit and employee in his / her department have undergone aforesaid training.

8) Obligation of Employee:

If an employee has any suspicions and report the suspicions about money laundering to the Manager, the employee will have fulfilled his / her obligations under the law. Rigorous adherence to the Firm's policies and procedures will help to protect the employee and the image of the organisation.

9) List of Designated Individuals / Entities: As part of Compliance measures, adequate systems in place to prevent opening an account for SEBI Debarred Entities and UN Security Council clients. We have developed in-house report that will send the report of SEBI Debarred clients if available in our system on daily basis to all the Management Personnel's as we are uploading the SEBI Debarred List on daily basis. The system will give pop-up if we enter the PAN No. of the new client when we tries to open and we will get automated generated report on daily basis for the existing clients, if any appearing in Debarred List.

10) Freezing Procedure: We will act accordingly as per intimation / instructions received from FIU-Delhi for freezing of funds, financial assets or economic resources or related services of the client.

11) Investor Education: We will educate the clients with regard to PMLA / AML policies at the time of account opening.

12) Reliance on third party for carrying out Client Due Diligence (CDD): We are not relying Third party for carrying out CDD and the customer due diligence will be done by our own staff through us.

13) Review of PMLA Policy: The Policy will be reviewed annually.

14) Contact Details of Principal Officer and Designated Director:

Sl. No	Designation	Name	Contact No.	E-Mail ID
1	Principal Officer	Ms. D Meenambal	044-45609696	meenambal@ftconline.in
2	Designated Director	Mr.K.Narayana Moorthy	044-45609696	ftc@ftconline.in

15) United Nations Security Council Resolutions: Referring UNSCR list from URL <http://www.un.org/sc/committees/1267/consolist.shtml>. The clients available in the list will be denied for financial services and for the existing accounts, their assets / accounts will be freeze and initiated to FIU, Delhi.

Policy Reviewed by : Mr. S. PremKumar, Compliance Officer

Policy Approved by : Mr. S, Krishnamurthy, Chief Operating Officer