

**INTRODUCTION TO**

**PREVENTION OF MONEY LAUNDERING ACT- 2002**

**AND**

**POLICIES AND PROCEDURES ADOPTED BY**

**DHARAMSHI SECURITIES PVT. LTD.**

## **Our Policy on Anti Money Laundering**

### **1) Background:**

Pursuant to the recommendation made by Financial Action Task Force (FATF) on Anti Money Laundering (AML), Securities and Exchange Board of India (SEBI) had issued guidelines on AML vide their notification no. ISD/Cir/RR/AML/1/06 dated 18<sup>th</sup> January 2006, and vide letter no. ISD/Cir/RR/AML/2/06 dated 20<sup>th</sup> March 2006 had issued obligations of the intermediaries registered under section 12 of SEBI Act, 1992. As per these guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the guidelines on AML.

### **2) Financial Intelligence Unit- India (FIU-India):**

Government of India has set up FIU on 18<sup>th</sup> November 2004 as an independent body to report directly to the Economic Intelligence Council headed by Finance Minister.

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

### **3) Prevention of Money Laundering Act 2002 (PMLA 2002):**

PMLA forms the core of legal framework put in place by India to combat money laundering. PMLA and rules notified there under came into force with effect from 1<sup>st</sup> July 2005. PMLA and rules notified there under impose an obligation on intermediaries to verify the identity of their clients, maintain records, and furnish information to FIU.

#### **4) Objective of framing a policy on Anti Money Laundering:**

Money laundering has now become one of the major concerns of international financial community. Money Laundering is not just an attempt to disguise money derived from illegal activities. Rather, money laundering is involvement in any transaction or series of transactions that seek to conceal or disguise the nature or source of proceeds derived from illegal activities, including drug trafficking, terrorism, organized crime, fraud etc.

The objective is to have a system in place for preventing any money laundering financial transaction through us, and also to identify, monitor, report any such transaction to appropriate authorities.

Know Your Customer (KYC) is the guiding principle behind the Anti Money Laundering (AML) measures, hereinafter referred to as AML measures. The objective here is to have in place adequate policies, practices and procedures that promote high ethical and professional standards and prevent our company from being used, intentionally or unintentionally, by criminal elements. KYC standards and AML measures would enable the company to know/understand our customers the beneficial owners, the principals behind customers who are acting as agents and their financial dealings better which in turn will help the Company to manage its risks prudently.

The management of the company is fully committed to establishing appropriate policies and procedures for ensuring effectiveness and compliance and compliance with respect to all relevant legal requirements.

#### **5) Regulatory/Statutory Requirements:**

An officer of the company is designated as “Principal Officer”, who will ensure proper discharge of all the legal requirements with respect to the same. Mr. Hinesh Lodaya is the Principal Officer responsible for

- a) Compliance of the provisions of PMLA and AML guidelines.
- b) Act as a central reference point and play an active role in identification and assessment of potential suspicious transactions.
- c) Ensure that our company discharges its legal obligation to report

suspicious transactions to concerned authorities.

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

- a) Obtaining sufficient information about the client in order to identify who is the actual beneficial owner of the securities or on whose behalf the transaction is conducted.
- b) Verify the customers' identity using reliable independent source, document, data or information.
- c) Conduct on going due diligence and scrutinize the client account to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile.

#### **6) Our Customer Acceptance Policy:**

- a) KYC procedure compliance- The clients, who are able to comply with KYC procedures laid down would only be accepted. KYC and MCA documents are to be completely filled up by the client. All photocopies submitted by the clients must be verified with the originals. The prospective client should compulsorily meet either our director/senior management/compliance officer before we could take further course of action.
- b) Introduction: The details of person introducing prospective client should be recorded. A copy of the PAN and address proof of the introducer must be attached to the client registration document.
- c) Other documents: Especially for a client, who wishes to trade on the derivatives segment, we shall collect documentary proof of his financial position as a risk management practice. In case of corporate clients, we shall obtain a copy of Article and Memorandum of Association, as well as the board resolution giving authority to an individual to transact on behalf of his company.
- d) Purpose: We shall interview the client regarding his purpose of opening the account, prior experience in the financial markets etc.
- e) Reject the client having criminal record: We shall refer to the websites of the exchanges and SEBI to check whether the prospective

client had any criminal record, or whether that client was debarred or suspended from trading in the past 3 years by the exchanges/SEBI.

f) Client in Special Category: We shall be more cautious while accepting Clients of Special Category (CSC). The clients in such category shall include:

i) Non Resident Indian clients

ii) High Net Worth clients

iii) Trusts

iv) Charities

v) NGOs and organizations receiving donations

vi) Companies having close family shareholding or beneficial ownership

vii) Politically Exposed Persons (Current/Former Head of State Current/Former Senior High Profile politicians and connected persons-immediate family, close advisors and companies in which such individuals have interest or significant influence)

viii) Person of Indian Origin

ix) Companies offering foreign exchange offerings

x) 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 with corruption as per Transparency International Perception Index is highly prevalent, countries against which government sanctions are applied, countries reputed to be havens/sponsors of international terrorism, offshore financial centres, countries where fraud is highly prevalent)

xi) Non face to face client

xii) Clients with dubious public reputation as per public information available.

### **7) Risk Profiling of the client:**

We shall accept the clients based on the risk that they are likely to pose. The aim is to identify the clients, who are likely to pose 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 shall be in a better position to

apply appropriate Customer Due Diligence process, i.e. high degree of due diligence for high risk category, and normal for others.

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

Category A: Low Risk

Category B: Medium Risk

Category C: High Risk

a) Category A clients are those, who pose low or nil risk. They could be individuals, firms, corporates, who enjoy a respectable social standing. Such clients make the payment of funds and securities in time.

b) Category B clients are those who are reluctant to provide concurrent financial information, when needed by us. Thus they possess medium risk for our company.

c) Category C clients are those who have defaulted in the past, have suspicious background and do not enjoy respectable financial status. Such clients possess high risk for our company.

We have to be very careful while monitoring the clients falling in B and C category.

We shall also be cautious while dealing with NRI/NRE/PIO clients, who make payments in foreign currency. Any change in the category of the client has to be ascertained by the concerned officials, and shall be reported to the management immediately.

### **8) KYC updation process**

All corporate clients must submit their annual report every year. In case of individual clients, and so in case of HUF and partnership firms, copy of Income Tax Returns would be preferred. Any change in bank or demat details must be communicated by the clients to us in writing. The information must be adequate enough to satisfy competent authorities (regulatory/enforcement authorities) in future that the due diligence was observed by us in compliance with the guidelines. Failure by the prospective clients to provide satisfactory evidence of identity should be noted and reported to the principal officer.

Further, we should also maintain continuous familiarity and follow-up with the client, where inconsistencies in the information provided are noted. Risk category of the client is liable to degrade in cases where the client fails to provide required information.

#### **9) Employee Training:**

We shall train our employees on an ongoing basis, so that our staff is completely aware of the provisions of AML procedures and amendments thereof. These training programs are totally focused for frontline staff, back office staff, risk management staff and staff dealing with new customers, since it is very 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, if there is any lapse on the part of any of the staff member.

#### **10) Client Education:**

To implement AML provisions in true sense, there is need to get certain information from investors, which may be of personal nature, or which have hitherto never been called for. Such information can include documents evidencing the source of funds/income tax returns/bank records etc. To satisfy the investors on these aspects so that they can easily provide information to us, we shall make them aware of PMLA provisions by way of literature formulated by us for all the clients, which is displayed on our website - [www.dharamshi.net](http://www.dharamshi.net)