

# **PMLA Policy**

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# **PRUDENT BROKING SERVICES PRIVATE LIMITED**

**Stock Broker and DP and Research Analyst**

**Guidelines On Anti-Money Laundering Standards**

[Prevention of Money Laundering Act, 2002 (PMLA)]

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**PRINCIPAL OFFICER: Mr. Ankush Choudhary**

**DESIGNATED DIRECTOR: Ms. Hetal Patel**

***PRUDENT BROKING SERVICES PRIVATE LIMITED – (PBSPL)***

## **PREFACE**

This Know Your Customer (KYC) and Anti-Money Laundering (AML) Policy (the Policy) has been prepared in accordance Prevention of Money Laundering Act, 2002 (PMLA Act). This Policy also takes into account the provisions of the PMLA Act and other Rules and Regulations laid down by SEBI and FIU.

As per PMLA, every banking company, financial institution (which includes chit fund company, a cooperative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, authorized persons, depository participant 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.

In order to comply with the applicable Anti Money Laundering (AML) Standards/ Combating the Financing of Terrorism (CFT) /Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and Pursuant to the recommendations made by the Financial Action Task Force on anti-money laundering standards, SEBI had issued the Guidelines on Anti Money Laundering Standards vide their notification No.ISD/CIR/RR/AML/1/06 dated 18th January 2006, vide Circular No.ISD/CIR/RR/AML/2/06 dated 20th March 2006 vide letter No. ISD/AML/CIR-1/2008 dated December 19, 2008, vide Circular No. ISD/AML/CIR-

1/2009 dated September 01, 2009, Vide Circular No. ISD/AML/CIR-2/2009 date October 23,2009, vide Circular CIR/ISD/AML/3/2010 dated December 31, 2010, vide Circular No. ISD/AML/CIR-1/2010 dated February 2010 and vide Circular number CIR/MIRSD/11/2014 dated March 12th, 2014, vide Circular SEBI/HO/MIRSD/DOS3/CIR/P/2018/104 dated July 04th, 2018 and vide Circular number SEBI/HO/MIRSD/DOP/CIR/P/2019/113 dated October 15th, 2019, vide Circular number SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 03, 2023, vide Circular number SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated 16<sup>th</sup> June, 2023 and vide Circular number SEBI/HO/MIRSD/SEC-FATF/P/CIR/2023/0170 dated 13<sup>th</sup> October, 2023 had issued the obligations of the intermediaries registered under Section 12 of SEBI Act, 1992. As per these SEBI guidelines, PBSPL have ensured that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

To be in compliance with these obligations, the senior management shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements.

**We shall:**

- a. issue a statement of policies and procedures and implement, on a group basis where applicable, and appropriate to, all branches and majority owned subsidiaries of the financial group for dealing with ML and TF reflecting the current statutory and regulatory requirements as under:
  - a. policies and procedures for sharing information required for the purposes of CDD and ML/TF risk management;
  - b. the provision, at group level compliance, audit, and/or AML/CFT functions, of customer, account, and transaction information from branches and subsidiaries when necessary for AML/CFT purposes. This shall include information and analysis of transactions or activities which appear unusual (if such analysis was done);similar provisions for receipt of such information by branches and subsidiaries from these group level functions when relevant and appropriate to risk management; and
  - c. adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off.

- b. ensure that the content of these Directives are understood by all staff members
- c. PBSPL shall review the policies and procedures on the prevention of ML and TF to ensure their effectiveness at least once every Year. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures
- d. adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF
- e. undertake client due diligence (“CDD”) measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction
- f. have in system a place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and
- g. develop staff members’ awareness and vigilance to guard against ML and TF.

## **1. KYC/AML philosophy of PBSPL**

The KYC / AML philosophy of PBSPL is to prevent PBSPL and its business network from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. The objective of this policy is also to enable PBSPL to know / understand its customers and their financial dealings better which in turn will help PBSPL to manage its risks prudently.

## **2. What is Money Laundering?**

Money laundering is the criminal practice of putting ill-gotten gains or dirty money through a series of transactions, so that the funds are cleaned to look like proceeds from legal activities. It is driven by criminal activities and conceals the true source, ownership, or use of funds.

In simple terms money laundering is most often described as the “turning of dirty or black money into clean or white money”. If undertaken successfully, money laundering allows criminals to legitimize "dirty" money by mingling it with "clean" money, ultimately providing a legitimate cover for the source of their income.

Section 3 of the PMLA Act defines money laundering in following words:

“Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money-laundering”.

### **3. Why “Know Your Customer”?**

One of the best methods of preventing and deterring money laundering is a sound knowledge of a customer’s business and pattern of financial transactions. The adoption of procedures by which financial institutions “know their customer” is not only a principle of good business but is also an essential tool to avoid involvement in money laundering.

PBSPL shall adopt appropriate KYC procedures and internal controls measures to:

- (i) Determine and document the true identity of the customers who establish relationships, open accounts or conduct significant business transactions and obtain basic background information on customers;
- (ii) Assess the money laundering risk posed by customers’ expected use of PBSPL’s products and services;
- (iii) Protect PBSPL from the risks of doing business with any individual or entity whose identity cannot be determined or who refuses to provide information, or who have provided information that contains significant inconsistencies which cannot be resolved after due investigation.

## 4. Customer Acceptance Policy

4.1 No account shall be opened in anonymous or fictitious / benami name(s). PAN shall be mandatory for each account. Each client shall have only one trading account.

4.2 Risk assessment to be carried out to identify, assess and take effective measures to mitigate money laundering and terrorist financing risk with respect to clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, volume/trading turnover, social and financial status, and manner of making payment for transactions undertaken, etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI 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. The parameters shall enable categorization of customers into low, medium and high risk.

We shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and existing products. The Stock Exchanges and registered intermediaries shall ensure:

- a. To undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies; and
- b. Adoption of a risk based approach to manage and mitigate the risks”.

For the purpose of risk categorization, individuals/entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, shall be categorized as low risk. Illustrative examples of low risk customers are as follows:

- salaried employees whose salary structures are well defined;

- Government Departments and Government owned companies;
- regulators and statutory bodies; etc.

Customers that are likely to pose a higher than average risk to PBSPL shall be categorized as medium or high risk depending on the customer's background, nature and location of activity, country of origin, sources of funds, and client profile etc. Clients of Special Category (CSC) as defined PMLA circular dated 4 th July 2018, will be classified as „High Risk“. Such clients require a higher degree of due diligence and regular update of Know Your Client (KYC) profile PBSPL shall apply Customer Due Diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher-risk customers, especially those for whom the sources of funds are not clear. Please refer annexure 2 for specific risk categorization.

**4.3.** While the profile of the customer is captured in the account opening form, an Customer Due Diligence (CDD) is done at the account opening stage for all accounts(individual / non individual).

CDD shall include the following measures –

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), etc, by verification or original documents or such related processes.

For Companies and LLPs, validations may be done from MCA (ROC site) to check the veracity of existence of the company / LLP, registered office address, CIN, directors / registered partners list, etc. as an additional check. In case of any mismatches, appropriate clarifications be sought from the prospect and still if the responses are not cogent enough, such accounts not be opened.

In case enhanced CDD is required, generally Retail client have a relationship at the local level with the branch, and in such cases we shall check the local references for client identity and other credit details including those mentioned above or we can refer any other reliable, independent source documents, data or information. This should be approved by Account Opening Team shall open the Client Account after verifying information collected, registration form along with other supporting documents. All new accounts shall be reviewed against negative lists issued by SEBI, Exchanges and other internal negative lists such as OFAC, UN sanctions lists, EU, French, ANMI etc.

In person verification is to be carried out as per the requirements of the regulators. Further check would be done for actual beneficial ownership and control of the particular account.

Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted. 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 shall also 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. Special care would be taken in case of non individual accounts such as corporate, partnership firms etc, where the ownership structure is opaque. In all such cases the accounts would be activated only post approval from the compliance department.

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, including those persons who exercise ultimate effective control over a legal person or arrangement. PBSPL shall be guided by and follow SEBI circular CIR/MIRSD/11/2012 dated September 5, 2012 in this regard and such amendments thereto from time to time.

Reliance on third party for carrying out Client Due Diligence (CDD) In-person verification and verification of document copies of clients / prospective clients against originals are to be done and reliance on third parties / external entities, where necessary, in accordance with SEBI / Exchange / Regulatory guidelines in this regard as may be



amended from time to time. {At this point in time, in case of stock brokers and their Authorized Persons i.e. APs (appointed by the stock-brokers after getting approval from concerned stock exchanges) can perform In-Person Verification – as per SEBI Circular dated December 23, 2011} or one can rely on IPV / KYC as “verified” and available in KRAs. No other third party may be relied on, unless expressly authorized under SEBI / Exchange / Regulatory guidelines in this regard.

For onboarding of NRI / FII / FPI clients, in case there is any connection with any country which has been observed by the FATF to be non-compliant with its requirements, the account shall be rejected. which shall mean the following –

- Person has provided a residential / correspondence address of such country
- Directions for the operating of the account are received from the said country
- The POA holder of the account is connected in the above manner from that country

Ongoing due diligence and scrutiny – We shall conduct periodic 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 needs 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 Organization’s knowledge of the client, its business and risk profile, taking into account, where necessary, the customer’s source of funds.

For all clients applying for trading rights in the futures and options/currency/commodity segments, further details as regards their proof of income and source of funds and shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

**4.4.** Necessary checks shall be conducted before opening a new account so as to ensure that the identity of the customer does not match with any person with known criminal background or with banned entities such as individual terrorists or terrorist organizations or banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

For conducting such reviews, while PBSPL shall check the lists provided by SEBI/ /Exchanges/internally maintained negative lists, it shall rely primarily on the United Nations list which is available at <http://www.un.org/sc/committees/1267/consolist.shtml> and <http://www.un.org/sc/committees/1988/list.shtml>). The list of FATF countries is also updated on an ongoing basis to ensure that clients covered under the high risk countries as per the FATF list are not allowed to open accounts through PBSPL. The Principal Officer shall be responsible to ensure that the said lists are updated through various sources.

Process wherein the name of the client (new or existing) matches with the negative list

<b>Type of client</b>	<b>What matches with negative list</b>	<b>What is to be done</b>
New	PAN	Reject account

	Name	<p>Check the address or any other detail in the negative list.</p> <p>If anything is closely resembling the client in question – Escalate case to compliance officer before opening</p> <p>Compliance team to analyse the alert with the KYC details of the client and if required, speak to the client over a recorded line.</p> <p>Take a declaration from the client that he is not the same person.</p> <p>If the client is not cooperating – Not to open the account.</p> <p>If the client provides the documents, onboard the client.</p>
Existing	PAN	Proceed for closure
	Name / Address / Other details	<p>Escalate to compliance officer</p> <p>Review past transactions.</p> <p>If the past transactions have shown any similarity to SEBI/ order or any alert – Close the account</p> <p>If not – ask the client to provide declaration he is not the same person.</p> <p>If the client is not cooperating – Lock the client's account</p> <p>If the client provides the documents, continue maintaining the client's account.</p>

**4.5.** PBSPL shall not open an account or shall close an existing account where PBSPL is unable to apply appropriate customer due diligence measures/KYC policies.

This shall apply in cases where it is not possible to ascertain the identity of the client, or the information provided is suspected to be non - genuine, or there is perceived non - co-operation of the client in providing full and complete information. It shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. Wherever possible, PBSPL shall take necessary measures to ensure that it withholds securities or money that may be from suspicious trades and shall consult the relevant authorities in determining next steps when suspicious and reportable transactions are observed.

In case of accounts of partnership firms, account opening team shall check the Partnership Deed of the entity to ensure no HUF is a partner in the firm. In case an HUF is a partner in the firm, the account shall not be opened.

In case of accounts of LLPs, account opening team shall check the Deed of the LLP and the list of partners of the LLP to ensure no HUF is a partner. In case an HUF is a partner in the LLP, the account shall not be opened. (Ref. MCA Circular dated 29.07.2013).

Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the Principal Officer for necessary action, including filing of STR, where deemed so necessary by Principal Officer.

**4.6.** PBSPL shall apply higher levels of due diligence when an account is operated by a mandate holder or where an account is opened by an intermediary in fiduciary capacity. KYC documents will be taken for both the mandate holder/intermediary in fiduciary capacity and the account holder. Adequate verification of a person's authority to act on behalf of the client shall be carried out.

## **5. Customer Identification Procedure**

**5.1.** Customer identification procedure means verifying the identity of the customer by using reliable, independent source documents, data or information. Where the client purports to act on behalf of juridical person or individual or trust, We shall verify that any person purporting to act on behalf of such client is so authorized and verify the

identity of that person. In case of a Trust, We shall ensure that trustees disclose their status at the time of commencement of an account based relationship. PBSPL needs to obtain sufficient information necessary to establish, to its satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of relationship. PBSPL must also be able to satisfy the regulators that due diligence was observed based on the risk profile of the customer in compliance with the extant guidelines in place.

**5.2.** PBSPL shall have in place a comprehensive Customer Identification Procedure which details the various documents that PBSPL can take as Identity, Address proof for various types of customers (refer **Annexure 2**).

However, merely obtaining identification documents for identity, address and signature proof from the customer does not mean that the KYC is complete. KYC means actually knowing the customer, nature of his business and the purposes for which PBSPL account will be used.

**5.3.** PBSPL requests updation and confirmation of existing customer identification and other KYC data from clients who have not transacted in the last 12 (twelve) months across all Exchanges. This is covered in the Policy for treatment of In-active/Dormant Account<sup>6</sup>.

## **6. Monitoring of Transactions**

Ongoing monitoring is an essential element of effective KYC procedures. PBSPL can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity.

PBSPL shall have in place a comprehensive transaction monitoring process from a KYC/AML and Surveillance perspective. PBSPL shall put in place strong transaction alerts which will provide proactive signals on suspicious transactions and possible money laundering or market abuse. An indicative list of such alerts is provided with this policy. (Annexure 3) PBSPL AML monitoring team shall endeavour to update

the list based on current understanding of the market scenario and trading patterns followed by clients. In addition to the alerts from internal sources, the Surveillance team shall also monitor the alerts provided by the exchanges and Depositories. Details relating to the compliance with respect to the said circular are elaborated in Annexure 3.

On the basis of criticality of the breach, observation of account behaviour, repetitive breaches, the AML Monitoring Team shall send a query to the concerned Business. Responses would be expected within 7 days. The background including all documents, office records and clarifications pertaining to such transactions and their purpose will be-examined carefully and

findings will be recorded. If the alerts still persist or the AML Monitoring Team is not satisfied with the responses, then the AML query team shall send the query with its observations to the Principal Officer.

PBSPL shall put in place a system of periodical review of risk categorization of accounts. Such review of risk categorisation of customers shall be carried out at a periodicity of once in five years or such lower frequency as possible or desirable.

Risk Rating is done on a client level i.e. if across different business lines, client is found to be High Risk in any business line, client will be marked as High Risk for all his accounts with PBSPL. For eg., if he is found to be High Risk for trading account, he is marked as High Risk for DP account as well.

All employees of PBSPL shall monitor transactions related to their day-to-day functioning / job description on a continuous basis and shall report any Cash Transactions and / or Suspicious Transactions to Compliance or directly to the Principal Officer.

It is clarified that employees are obligated to be vigilant and report any such executed or attempted suspicious transaction to Compliance or directly to the Principal Officer as a Suspicious Transaction, even if not completed by Clients, irrespective of the amount of the transaction.

In any case, all employees are required to exercise diligence and proactively alert concerns in compliance with the Group's Whistleblower Policy.

Further the accounts or financial assets shall be frozen for any particular client in case so required by any regulatory authority upon receiving a notice for the same.

## **7. Risk Management**

The overall responsibility/implementation and adherence of this KYC/AML policy shall lie with the Compliance & Surveillance Unit of PBSPL. The surveillance activities shall be conducted under overall supervision of its Compliance Officer.

The Concurrent / Internal Auditors shall specifically check and verify the application of KYC/AML & Surveillance procedure, scope and coverage of the AML and Surveillance policy and procedure documents, their implementation and effectiveness and shall also review the alerts generated and appropriateness of closure of the alerts and comment on the lapses observed in this regard. The Auditor shall also ensure that a quarterly MIS of alerts (comprising the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure, as also exceptions noticed during the disposal of alerts and reasons for delay in disposal of alerts) is prepared and presented to the Board and verify the accuracy and completeness thereof. The reports and compliance in this regard shall also put up before the Audit & Compliance Committee of the Board

## **8. Combating Financing of Terrorism (CFT)**

PBSPL shall have a heightened awareness in the system to check for transactions which give rise to a reasonable ground of suspicion that these may involve financing of the activities relating to terrorism.

## **9. Maintenance of records of transactions / Information to be preserved / Maintenance and preservation of records / Cash and Suspicious transactions reporting to Financial Intelligence Unit-India (FIU-IND)**

Government of India, Ministry of Finance, Department of Revenue, vide its notification dated July 1, 2005 in the Gazette of India, has notified the Rules under the PMLA Act, 2002. In terms of the Rules, the provisions of PMLA Act, 2002 came into effect from July 1, 2005. Section 12 of the PMLA, 2002 casts certain obligations on financial institutions in regard to preservation and reporting of customer account information.

### **9.1. Maintenance of records of transactions**

PBSPL shall have a system of maintaining proper record of all transactions including records of all transactions prescribed under Rule 3 of the Rules, as mentioned below:

all cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency;

all series of cash transactions integrally connected to each other which have been individually valued below Rupees Ten Lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of Ten Lakh rupees or its equivalent in foreign currency

### **9.2. Information to be maintained**

PBSPL shall maintain the following information in respect of transactions referred to in Rule 3 of the Rules including all necessary information specified by the regulator to permit reconstruction of individual transactions in respect of transactions referred to in Rule 3 of the Rules:

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.



### **9.3. Maintenance and Preservation of records**

PBSPL shall take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, PBSPL shall maintain for 5 number of years as would be required under the PMLA 2002 and rules made there-under from the date of transaction between PBSPL and the client, all necessary records of transactions, both domestic or international, which will permit / facilitate reconstruction of individual transactions (including the amounts and types of currency involved if any) as also its own findings, conclusions and clarifications received, so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity. To enable this reconstruction, PBSPL shall retain the following information for the accounts of their customers in order to maintain a satisfactory audit trail:

- the beneficial owner of the account;
- the volume of the funds flowing through the account; and
- 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.

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

PBSPL shall maintain and preserve records of documents evidencing the identity of its clients and beneficial owner and his address (e.g. copies of documents like passports, identity cards, Aadhaar card, driving licenses, PAN card, bank statement, utility bills, e-KYC data shared by KUA, etc.) while opening the account and during the course of business relationship, These records are properly preserved for 5 years as would be required under the PMLA 2002 and rules made thereunder after the business

relationship is ended or the account has been closed whichever is later. The identification records and transaction data should be made available to the competent authorities upon request.

#### **9.4. Record generation, maintenance and retention –**

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 of the all trading details of the client needs to be stored for such number of years as would be required under the PMLA 2002 and rules made thereunder

Records shall be maintained in hard and/or soft copies.

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.

Where required by the investigating authority, PBSPL shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars

#### **9.5 Reporting to Financial Intelligence Unit-India and other Regulatory bodies**

9.5.1 In terms of the Rules, PBSPL shall report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

Director, FIU-IND,  
Financial Intelligence Unit - India  
6th Floor, Tower-2,  
Jeevan Bharati Building,  
Connaught Place,  
New Delhi-110001, INDIA  
Website - <http://fiuindia.gov.in/>

In case of adverse observations or abnormal activity are recorded during transaction monitoring or instances of potential money laundering or market abuse are discovered, PBSPL shall report all such instances along with the details of the adverse observations to the Exchange/Regulatory Authorities within the stipulated timelines.

Counts of alerts and reportings made to FIU shall be submitted to Exchanges / Depositories or regulators at the monthly / quarterly intervals as specified by Exchanges / Depositories or regulators from time to time.

#### Suspicious Transaction Monitoring and Reporting (STR)

The Suspicious Transaction Report (STR) shall be furnished within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Non Profit Organization Transaction Reports (NTRs) for each month shall be submitted to FIU-IND on or before the 15<sup>th</sup> of the succeeding month. Confidentiality shall be maintained in filing of STR and NTR to FIU-IND. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report is received from a branch or any other office. Such report shall be made available to the competent authorities on request.

While determining suspicious transactions, PBSPL shall be guided by definition of suspicious transaction as amended from time to time.

An indicative list of suspicious activities contained is provided along with this policy.

While ensuring that there is no tipping off to the customer at any level, PBSPL shall also ensure not to put restrictions on operations in the accounts where an STR has been made. This prohibition on tipping off extends not only to the filing of the STR and/ or related information but even before, during and after the submission of an STR. It shall ensure that there is no information to the client at any level, of the report or about our suspicion. Irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, it shall file STR if have reasonable grounds to believe that the transactions involve proceeds of crime.

It shall be ensured that there is continuity in dealing with the client as normal until instructed otherwise by any regulatory authority. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, for reasons recorded in writing.

In some cases transactions may be abandoned or aborted by clients on being asked to give some additional details or to provide documents. In such cases, PBSPL shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

PBSPL shall maintain updated designated lists / negative lists for screening purposes in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed therein are holding any funds, financial assets or economic resources or related services held in the form of securities with them. In the event, particulars of any of customer/s match the particulars of designated individuals/entities, subject to UN Sanctions, PBSPL from the time of finding out such customer, shall immediately and not later than 24 hours after such detection, inform full particulars of the funds, financial assets or economic resources or related services held in the form of securities, held by such customer on their books to the Joint Secretary (CTCR), Ministry of Home Affairs at Fax No. 011 – 23092551 and also convey over telephone No. 011 - 23092548. PBSPL shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered and carried through or attempted, as per the prescribed format. The particulars apart from being sent by post will be conveyed through e-mail at [jsctcr-mha@gov.in](mailto:jsctcr-mha@gov.in) and to [sebi\\_uapa@sebi.gov.in](mailto:sebi_uapa@sebi.gov.in).

Incase the aforementioned details of any of the customers match the particulars of designated individuals/entities beyond doubt, PBSPL would prevent designated persons from conducting any financial transactions.

## **10. Principal Officer**

Presently the Ankush Choudhary shall be appointed as the principal officer of the Company. The Principal Officer shall be facilitated to discharge duties with independence and appropriate level of authority. The decision of the Principal Officer to report a transaction to FIU-India shall be final and binding.

## **11. Designated Director**

The whole time director in charge of Operations shall be appointed as the designated Director

of the Company and details thereof be intimated to FIU consequent to SEBI Circular CIR/MIRSD/112014 dated March 12, 2014.

## **12. Customer Education / Employee's Training / Employee's Hiring**

### **12.1 Customer/Investors' Education**

Implementation of KYC procedures requires PBSPL to demand certain information from customer which may be of personal nature or which has hitherto never been called for or which do not appear in the standard checklists. This sometimes leads to a lot of questioning by the customer as to the motive and purpose of collecting such information. The Relationship Managers / KYC team and operation team of PBSPL shall be trained to explain to the customers the regulatory requirements and benefits of adhering to the KYC guidelines and seek co-operation of the customer. PBSPL shall put up an extract of this policy on its website to educate clients regarding the objectives and broad framework of the AML/CFT programme.

## **12.2 Employees' Training**

PBSPL shall have an ongoing employee training programme so that the members of the staff are adequately trained in KYC/AML procedures and fully understand the rationale behind the KYC/AML policies and implement them consistently.

## **12.3 Hiring of Employees**

KYC norms / AML standards / CFT measures have been prescribed to ensure that criminals are not allowed to misuse PBSPL infrastructure. It should therefore, be necessary that adequate employee screening mechanism is put in place by PBSPL as an integral part of their recruitment / hiring process of personnel.

The Human Resources department of PBSPL confirms the previous employment details given by the employee with prior employer. Further, PBSPL account of the employee is compulsorily required to be opened with PBSPL, which is subject to the KYC requirements of PBSPL.

## **13. Review of Policy:**

This policy will be reviewed at least once in a year by the Principal Officer and Designated Director for FIU (PMLA) or at such lesser frequency as may be required due to changes in regulatory framework. Views of concerned Business Heads and Internal Auditor, if any, may be taken into account where the management finds it necessary to do so. Revised versions of the policy shall be reviewed, approved and adopted by the Board of Directors of PBSPL.

**Note:** This policy has been reviewed in terms of SEBI's CIRCULAR CIR/ISD/AML/3/2010 dated December 31, 2010 AND CIR/MIRSD/1/2014 dated March 12, 2014 AND SEBI/ HO/ MIRSD/ DOP/ CIR/ P/ 2019/113 AND SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 3, 2023 AND SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/091 dated June 16, 2023 by Board of Directors of erstwhile Prudent Broking Services Private Limited during its meeting held on and is being circulated to all concerned for compliance of the same. Further with reference to SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2023/091 dated June 16, 2023, We have incorporated the said changes in this policy however the same is yet to approve by the board.

**ANNEXURE 1**

**RISK CATEGORISATION FOR ACCOUNTS IN THE NAME OF INDIVIDUALS**

Type	Recommended Risk Categorisation	Risk Perception
Salaried	Low risk	➤ Source on income is fixed and pattern of entries in the account can be correlated with known sources of income/ expenditure.
Senior citizens	Low/Medium Risk	➤ Source of income for trading related purposes not known clearly. May be operated by third parties. Will be considered Medium risk in case operating in F&O
House-wife	Low/Medium Risk	➤ Source of income for trading related purposes not known clearly. May be operated by third parties. Will be considered Medium risk in case operating in F&O
Self Employed- Professionals/ Businessmen	Low risk (except professionals associated with the film industry who will be categorized as "Medium" risk).	➤ Accounts maintained by Chartered Accountants, Architects, Doctors, Lawyers, Sportsmen, etc.
Non-Resident Individuals	High risk	➤ Non-resident clients are categorized as „Clients of Special Category (CSC)" as per SEBI. ➤ CSCs are to be classified as high as they require high degree of due diligence.
Politically Exposed Persons resident outside India	High Risk	➤ "Politically Exposed Persons" (PEPs). PEP shall have the same meaning as given in clause (db) of sub-rule (1) of rule 2 of the Prevention of Money-Laundering (Maintenance of Records) Rules,

		<p>2005. The additional norms applicable to PEP as contained in paragraph 14 of the Master Circular shall also be applied to the accounts of the family members or close relatives / associates of PEPs.”</p>
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Branches 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. Front end staff should verify the identity of the person and seek information about the sources of funds before accepting the PEP as a customer. Such accounts should be subjected to enhanced monitoring on an ongoing basis. The above norms should also be applied to the accounts of the family members and close relatives / associates of PEPs. Further PBSPL may maintain a list of additional accounts as “Designated PEP” The accounts of Politically Exposed Persons shall be opened only after obtaining the approval of the senior management. Further, in the event of an existing customer or the beneficial owner of an account subsequently becoming PEP, senior management approval would be required to continue the business relationship and such accounts would be subjected to Customer Due Diligence measures as applicable to the customers of PEP category including enhanced monitoring on an ongoing basis.

In such events PBSPL shall be guided by the information provided by the clients or front end teams. Networth as well income range shall both be mandatory in case of PEP accounts.



**Risk categorization of Non Individual customers can be done basis:**

**A. Type of Entity      B. Industry;      C. Country of Domicile**

**A. Type of Entity**

<b><u>ANNEXURE 1</u></b>		
<b><u>RISK CATEGORISATION FOR ACCOUNTS IN THE NAME OF NON-INDIVIDUALS</u></b>		
<b>Type</b>	<b>Recommended Risk Categorisation</b>	<b>Risk Perception</b>
Private Ltd/Public Ltd Companies	Low / Medium / High risk	➤ Depending on the clarity of the shareholding structure and the nature of operations, such companies would be classified.
Local Authorities or Public Bodies	Low Risk	➤ They are constituted under Special Acts. Operations are governed by such Acts / Rules
Public Sector Undertakings, Government Departments/ Undertakings, Statutory Corporations	Low Risk	➤ These types of entities are governed by specific Acts, Notifications etc framed by the Government of India or the State Govt and are controlled and run by the Govt.
Mutual Funds/Scheduled Commercial Banks/Insurance Companies/Financial Institutions	Low Risk	➤ These entities are strictly regulated by their respective regulators.
Partnership Firm	Low / Medium / High	➤ Depending on the clarity of the shareholding structure and the

	risk	nature of operations, such entities would be classified.
Trusts – Public Charitable Trust	High Risk	-
Hindu Undivided Family (HUF)	Medium Risk	➤ These are unregistered bodies and the pattern of entries in the account may not be correlated with known sources of income/ expenditure.
Societies / Associations / Clubs	High Risk (except „Housing Societies“ which will be categorized as “Low” risk).	➤ These are not highly regulated entities and the pattern of entries in the account may not be correlated with known sources of income/ expenditure.
Trusts – Private Trust	High Risk	➤ These may be unregistered trusts and the pattern of entries in the account may not be correlated with known sources of income/ expenditure.
NGO, Organisations receiving donations	High Risk	➤ These are not highly regulated entities and may receive cash donations

## B & C. Basis Industry and Country of Domicile

Risk Category	Industry	Country of Domicile
<b>High</b>	<p><b>The Risk categorisation is dependent on industries which are inherently High Risk or may exhibit high cash intensity, as below:</b></p> <ul style="list-style-type: none"> <li>➤ Arms Dealer Money Changer Exchange Houses</li> <li>➤ Gems / Jewellery / Precious metals / Bullion dealers (including sub-dealers) Real Estate Agents</li> <li>➤ Construction Offshore Corporation Art/antique dealers</li> <li>➤ Restaurant/Bar/casino/night club Import/Export agents (traders; goods not used for own manufacturing/retailing) Share &amp; Stock broker</li> <li>➤ Finance Companies (NBFC) Transport Operators</li> <li>➤ Auto dealers (used/ reconditioned vehicles/motorcycles)</li> <li>➤ Scrap metal dealers Liquor distributorship Commodities middlemen Co-operative Banks</li> <li>➤ Car/Boat/Plane dealerships/brokers Multi Level Marketing (MLM) Firms</li> </ul>	
<b>Medium</b>	None	NA
<b>Low</b>	All other industries	NA

### Notes:

- Higher Risk Categorization derived from either A or B or C shall be the applicable risk categorization for the account.

- Lowering of risk classification shall be carried out by the Compliance Officer. This shall be done only where adequate justifications can be provided and the same are mentioned along with the account opening form.
- Such justifications shall be reviewed 3 months from the date of account opening / first transaction in order to ensure that the classification is proper.
- Based on the above categorization the transaction review process will take place.

## **ANNEXURE 2**

### **CUSTOMER IDENTIFICATION PROCEDURE FOR ACCOUNT OPENING**

Customer identification means identifying the customer and verifying his/ her identity by using reliable, independent source documents, data or information. Based on risk perception, type / entity of customer, segment of customer following features shall be verified with supporting documents obtained from the customers –

#### **INSTRUCTIONS/CHECK LIST FOR FILLING KYC FORM**

##### **A. IMPORTANT POINTS:**

1. Self attested copy of PAN card or scan of the original PAN is mandatory for all clients, including Promoters/Partners/Karta/Trustees and whole time directors and persons authorized to deal in securities on behalf of company/firm/others.
2. Copies of all the documents submitted by the applicant should be self-attested or certified and accompanied by originals for verification. In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents, as per the below mentioned list.
3. If any proof of identity or address or any other document is in a foreign or vernacular language, then translation into English is required.
4. Name & address of the applicant mentioned on the KYC form, should match with the documentary proof submitted.
5. If correspondence & permanent address are different, then proofs for both have to be submitted.

6. Sole proprietor must make the application in his individual name & capacity.
7. For non-residents and foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of passport/PIO Card/OCI Card and overseas address proof is mandatory.
8. For foreign entities, CIN is optional; and in the absence of DIN no. for the directors, their passport copy should be given.
9. In case of Merchant Navy NRI's, Mariner's declaration or certified copy of CDC (Continuous Discharge Certificate) is to be submitted.
10. For opening an account with Depository participant or Mutual Fund, for a minor, photocopy of the School Leaving Certificate/Mark sheet issued by Higher Secondary Board/Passport of Minor/Birth Certificate must be provided.
11. Politically Exposed Persons (PEP) are defined as 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.

**B. Proof of Identity (POI):** - List of documents admissible as Proof of Identity:

1. PAN card with photograph.
2. Unique Identification Number (UID) (Aadhaar)/ Passport/ Voter ID card/ Driving license (Additional).
3. Identity card/ document with applicant's Photo, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities, Professional Bodies such as ICAI,

ICWAI, ICSI, Bar Council etc., to their Members; and Credit cards/Debit cards issued by Banks.

**C. Proof of Address (POA):** - List of documents admissible as Proof of Address:  
(\*Documents having an expiry date should be valid on the date of submission.)

1. Passport/ Voters Identity Card/ Aadhaar Card/Ration Card/ Registered Lease or Sale Agreement of Residence/ Driving License/ Flat Maintenance bill/ Insurance Copy.
2. Utility bills like Telephone Bill (only land line), Electricity bill or Gas bill - Not more than 3 months old.
3. Bank Account Statement/Passbook -- Not more than 3 months old.
4. Self-declaration by High Court and Supreme Court judges, giving the new address in respect of their own accounts.
5. Proof of address issued by any of the following: Bank Managers of Scheduled Commercial Banks/Scheduled Co-Operative Bank/Multinational Foreign Banks/Gazetted Officer/Notary public/Elected representatives to the Legislative Assembly/Parliament/Documents issued by any Govt. or Statutory Authority.
6. Identity card/document with address, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities and Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members.
7. For FPI/FII/sub account, Power of Attorney given by FPI/FII/sub-account to the Custodians(which are duly notarized and/or apostilled or consularised) that gives the registered address should be taken.

8. The proof of address in the name of the spouse may be accepted.

#### **D. Exemptions/clarifications to PAN**

(\*Sufficient documentary evidence in support of such claims is to be collected.)

1. In case of transactions undertaken on behalf of Central Government and/or State Government and by officials appointed by Courts e.g. Official liquidator, Court receiver etc.
2. Investors residing in the state of Sikkim.
3. UN entities/multilateral agencies exempt from paying taxes/filing tax returns in India.
4. SIP of Mutual Funds upto Rs 50, 000/- p.a.
5. In case of institutional clients, namely, FPI, FIIs, MFs, VCFs, FVCIs, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with IRDA and Public Financial Institution as defined under section 2(72) of the Companies Act, 2013, Custodians shall verify the PAN card details with the original PAN card and provide duly certified copies of such verified PAN details to the intermediary.

#### **E. List of people authorized to attest the documents:**

1. Notary Public, Gazetted Officer, Manager of a Scheduled Commercial/ Banks (Name, Designation & Seal should be affixed on the copy).
2. In case of NRIs, authorized officials of overseas branches of Scheduled Commercial Banks registered in India, Notary Public, Court Magistrate, Judge, Indian Embassy /Consulate General in the country where the client resides are permitted to attest the documents.



**F. In case of Non-Individuals, additional documents to be obtained from non-individuals, over & above the POI & POA, as mentioned below:**

Types of entity	Documentary requirements
<b>Corporate</b>	<ul style="list-style-type: none"> <li>➤ Copy of the balance sheet/Annual Report for the last 2 financial years (to be submitted every year).</li> <li>➤ Copy of latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI takeover Regulations, duly certified by the company secretary/Whole time director/MD (to be submitted every year).</li> <li>➤ Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations.</li> <li>➤ Photograph, POI, POA, PAN of individual promoters holding control - either directly or indirectly.</li> <li>➤ Copies of the Memorandum and Articles of Association and certificate of incorporation.</li> <li>➤ Copy of the Board Resolution for investment in securities market.</li> <li>➤ Authorised signatories list with specimen signatures.</li> </ul>
<b>Partnership firm</b>	<ul style="list-style-type: none"> <li>➤ Copy of the balance sheet/Annual report for the last 2 financial years (to be submitted every year).</li> <li>➤ Certificate of registration (for registered partnership firms only).</li> <li>➤ Copy of partnership deed.</li> <li>➤ Partnership firm resolution and Authorised signatories list with specimen signatures.</li> <li>➤ Photograph, POI, POA, PAN of Partners.</li> </ul>
<b>Trust</b>	<ul style="list-style-type: none"> <li>➤ Copy of the balance sheet/ Annual Report for the last 2 financial years (to be submitted every year).</li> <li>➤ Certificate of registration (for registered trust only).</li> <li>➤ Copy of Trust deed.</li> <li>➤ List of trustees certified by managing trustees/CA.</li> <li>➤ Trust Resolution for opening and operating the account</li> <li>➤ Photograph, POI, POA, PAN of Trustees &amp; Authorised Persons.</li> </ul>

<b>HUF</b>	<ul style="list-style-type: none"> <li>➤ PAN of HUF.</li> <li>➤ Deed of declaration of HUF/ List of coparceners.</li> <li>➤ Bank pass-book/bank statement in the name of HUF.</li> <li>➤ Photograph, POI, POA, PAN of Karta.</li> </ul>
<b>Unincorporated association or a body of individuals</b>	<ul style="list-style-type: none"> <li>➤ Proof of Existence/Constitution document.</li> <li>➤ Resolution of the managing body &amp; Power of Attorney granted to transact business on its behalf.</li> <li>➤ Authorized signatories list with specimen signatures.</li> </ul>
<b>Banks/Institutional Investors</b>	<ul style="list-style-type: none"> <li>➤ Copy of the constitution/registration or annual report/balance sheet/Annual Report for the last 2 financial years.</li> <li>➤ Authorized signatories list with specimen signatures.</li> </ul>
<b>Foreign Institutional Investors (FII)/ Foreign Portfolio Investors (FPI)</b>	<ul style="list-style-type: none"> <li>➤ Copy of SEBI registration certificate.</li> <li>➤ Authorized signatories list with specimen signatures.</li> </ul>
<b>Army/ Government Bodies</b>	<ul style="list-style-type: none"> <li>➤ Self-certification on letterhead.</li> <li>➤ Authorized signatories list with specimen signatures.</li> </ul>
<b>Registered Society</b>	<ul style="list-style-type: none"> <li>➤ Copy of Registration Certificate under Societies Registration Act.</li> <li>➤ List of Managing Committee members.</li> <li>➤ Committee resolution for persons authorised to act as authorised signatories with specimen signatures.</li> <li>➤ True copy of Society Rules and Bye Laws certified by the Chairman/Secretary.</li> </ul>

### **G. Procedure for Beneficial ownership and name of person controlling the client**

The procedure broadly two aspects of identify the controlling or the beneficial ownership.

1. KYC Details
2. Trading Pattern

#### **1. KYC Details**

For all non-individual accounts mentioned below the detail should be added to the system of the key person.

**The following categories are eligible for this**

1. Corporate Accounts: This could be directors, authorised signatories, share holders etc....
2. HUF Accounts: The Karta, Co Parceners etc..
3. Trust: The trustee details will be captured.
4. Partner Ship Firm: The partner details will be captures as key persons.
5. LLP: Details of Designated partners and Partners will be captured.
6. Association of Persons.

Following details will be entered for every Key Person

- First Name
- Middle Name
- Last Name
- Designation: Partner/Director/Karta etc...
- Email
- Mobile
- PAN
- Share Holding %
- Number of Shares
- Address Line 1
- Address Line 2
- Address Line 3
- City
- State
- Pin
- Country

Further system will alert, if the same key people are common in accounts -

Identifying beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted. The beneficial owner shall be determined as under-

- a) **where the client is a company**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.

Explanation:- For the purpose of this sub-clause:-

- i. "Controlling ownership interest" means ownership of or entitlement to more than ten per cent of shares or capital or profits of the company;
  - ii. "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements;
- b) **Where the client is a partnership firm**, the beneficial owner is the natural person(s) who, whether acting alone or together, or through one or more juridical person, has ownership of/ entitlement to more than ten percent of capital or profits of the partnership or who exercises control through other means.

Explanation:- For the purpose of this clause:-“Control” shall include the right to control the management or policy decision;

- c) **Where the client is an unincorporated association or body of individuals**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen per cent. of the property or capital or profits of such association or body of individuals;
- d) **Where no natural person is identified under (a) or (b) or (c) above**, the beneficial owner is the relevant natural person who holds the position of senior managing official;
- e) **Where the client is a trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with ten per cent or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and
- f) **Where the client or the owner of the controlling interest is an entity listed on a stock exchange in India**, or it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions notified by the Central Government, or it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.
- g) **Applicability for foreign investors:** Registered intermediaries dealing with foreign investors' may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19,2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;

- h) The Stock Exchanges and Depositories shall monitor the compliance of the aforementioned provision on identification of beneficial ownership through half yearly internal audits. In case of mutual funds, compliance of the same shall be monitored by the Boards of the Asset Management Companies and the Trustees and in case of other registered intermediaries, by their Board of Directors.

Every registered intermediary shall register the details of a client, in case of client being a non-profit organisation, on the DARPAN Portal of NITI Aayog, if not already registered, and maintain such registration records for a period of five years after the business relationship between a client and the registered intermediary has ended or the account has been closed, whichever is later.

Where registered intermediary is suspicious that transactions relate to money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the client, the registered intermediary shall not pursue the CDD process, and shall instead file a STR with FIU-IND.”

- a) Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c) above.

- b) Understand the ownership and control structure of the client.

- c) Conduct ongoing due diligence and scrutiny, 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 registered intermediary’s knowledge of the client, its business and risk profile, taking into account, where necessary, the client’s source of funds; and

- d) Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process such that the information or data collected under client due diligence is kept up-to-date and relevant, particularly for high risk clients.

- e) for all clients applying for trading rights in derivatives **segment, further details as regards to income proof would be required.**

f) Additional documents to be taken in case clients want to open accounts in F&O / Currency/Commodity segments.

g) No transaction or account-based relationship shall be undertaken without following the CDD procedure.

Obtaining financial information from client trading in derivatives segment:

PBSPL shall review and update periodically client information in the Client Registration Form and are also advised to ensure that client registration details including financial details of the clients are obtained and updated at regular intervals.

The member shall collect documentary evidence of financial details provided by the clients who opt to deal in the derivative segment at the time of registration and at the time of annual updation.

**An illustrative list of documents which the members may collect from its clients (towards documentary evidence of financial details) is as below:**

- Copy of ITR Acknowledgement
- Copy of Annual Accounts
- Copy of Form 16 in case of salary income
- Net worth certificate
- Salary Slip
- Bank account statement for last 6 months
- Copy of demat account Holding statement.
- Any other relevant documents substantiating ownership of assets.
- Self declaration along with relevant supporting.

### **ANNEXURE 3**

#### **AN INDICATIVE LIST OF SUSPICIOUS ACTIVITIES & PROCEDURE FOR DISPOSAL OF ALERTS**

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:

- Clients whose identity verification seems difficult or clients appear 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;
- Substantial increases in business volume without apparent cause;
- Unusually large cash deposits made by an individual or business;
- Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- Transfer of investment proceeds to apparently unrelated third parties;
- Off-market transactions in the DP account of the clients;
- High trading activity in the relatively illiquid scrips;
- Major trading activity in the Z and T to T category scrips;
- Options trading/trading in illiquid scrips wherein client has booked unusual profit or loss which does not commensurate with the changes in the prices the of underlying security in the cash segment.
- High exposures taken by client as compared to income levels informed by clients.
- Unusual transactions by CSCs or "High risk status" and businesses undertaken by shell corporations offshore banks /financial services, businesses reported to be in the nature of export-import of small items.

NSE & BSE had issued circulars dated March 07, 2013 on **Surveillance Obligations for Trading Members**. Further, to an update to the above circulars, both NSE & BSE have issued circulars dated July 1, 2021. The circular lays down the guidelines to be followed to monitor surveillance related alerts provided by the NSE & BSE from time to time. In this regard process to be followed is provided below

All exchange alerts shall be reviewed by the surveillance team.

In case of any suspicious activity observed –

- Client would be required to provide explanation
- We may ask clients to provide KYC related information
- Further documentary evidence such as bank and depository account statements may be called for
- Post analyzing the documentation the results for the same would be recorded and in case of adverse remarks the same would be informed to the exchanges within 45 days from the alert date, unless suitable extension is taken from the exchange.
- Various indicative themes provided to detect potentially suspicious trading transactions are:
  - Client / group of clients dealing frequently in small quantities/minimum market lot in a scrip / contract
  - Disproportionate trading activity vs reported income / Net worth
  - Frequent changes in KYC submitted by clients
  - Based on an announcement by a listed company, identify Client / group of clients, having possible direct / indirect connection with a listed company, who have undertaken any suspicious trading activity prior to price sensitive announcement by said listed company
  - Client / group of clients having significant selling concentration, in the scrips, forming part of, For Information list" or Current Watch list"
  - Consistency in profit / loss at client / group of clients" levels, rationale for such trading activities



- Significant trading activity in scrips by client who has pledged the shares of same scrip
- In case of concerns of trading activity of a client or a group of clients in a scrip, monitoring whether the orders are being placed by respective clients or their authorized representatives and monitoring client's address as per KYC vis a vis the dealing office address.
- The indicative themes additionally applicable to Trading members who are Depository Participants - Significant trading activity in scrips where client has pledged shares or has significant holding or has frequent off-market transactions
- The indicative themes additionally applicable to Trading members who have facility of internet-based trading -Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location)
- Significantly increase in client activity
- Sudden trading activity in dormant account
- Clients/ Group of Client(s), deal in common scrips
- Client(s)/ Group of Client(s) is concentrated in a few illiquid scrips
- Client(s)/ Group of Client(s) dealing in scrip in minimum lot size.
- Client/ Group of Client(s) Concentration in a scrip
- Circular Trading
- Pump and Dump
- Reversal of Trades
- Front Running
- Concentrated position in the Open Interest/High Turnover concentration
- Order book spoofing i.e. large orders away from market

NSDL & CDSL has issued circulars dated July 15, 2021 on **Surveillance Obligations of Depository Participants**. These circulars seeks to strengthen the framework laid down by Stock Exchanges by requiring Depository Participants also to put in place a Surveillance Framework. Accordingly the various indicative themes provided to detect potentially suspicious transactions are:

- Alert for multiple demat accounts opened with same demographic details: Alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing demat accounts held with the Participant.
- Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced
- Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
- Frequent Off-Market transfers by a client in a specified period
- Off-market transfers (High Value) immediately after modification of details in demat account
- Review of reasons of off-market transfers provided by client for off-market transfers vis-à-vis profile of the client e.g. transfers with reason code Gifts with consideration, frequent transfers with reason code Gifts/Donation to unrelated parties, frequent transfers with reason code off-market sales
- Alert for newly opened accounts wherein sudden Increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time.
- Off-market transfers and pledge transactions not commensurate with the income/Networth of the client.
- Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients

All depository alerts shall be reviewed by the AML & Surveillance Transaction Monitoring team.

In case of any suspicious activity observed –

- Client would be required to provide an explanation
- We may ask clients to provide KYC related updates
- Further documentary evidence such as bank and depository account statements may be called for
- Post analyzing the documentation received, if any, the results of analysis of the alert would be recorded and in case of adverse remarks or detection of abnormal activity, the same would be informed to the concerned depository within 30 days from the alert generation date.