

POLICY ON ANTI MONEY LAUNDERING

1. BACKGROUND:

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

The stock brokers fall under the category of intermediaries under section 12 of SEBI Act, 1992, and hence the provisions of PMLA are also applicable to all the stock brokers. Establishment of Anti-money Laundering programs by Market Intermediaries are one of the central recommendations of the Financial Action Task Force (FATF).

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

2. WHAT IS MONEY LAUNDERING?

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

There are three common stages of Money Laundering, namely Placement, Layering & Integration, which are resorted to by the launderers. The laundered proceeds re-enter the financial system appearing to be normal business funds and Market Intermediaries may unwittingly get exposed to a potential criminal activity while undertaking such normal business transactions. Market Intermediaries are therefore placed with a statutory duty to make a disclosure to the Authorized Officer when knowing or suspecting that any property, in whole or in part, directly or indirectly, representing the proceeds of a predicated offence, or was or is intended to be used in that connection is passing through the Market Intermediaries. Law protects such disclosures, enabling the person with information to be able to disclose the same without any breach of confidentiality. Market Intermediaries likewise need not abstain themselves from providing such information pertaining to its customers.

3. FINANCIAL INTELLIGENCE UNIT (FIU)-INDIA

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

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

4. ANTI MONEY LAUNDERING PROGRAM (AML)

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

*Appointment of principal officer

* Client Due Diligence process is the main part of the policy which means:

> Obtaining sufficient information about the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted.

> Verify the client's identity using reliable, independent source document, data or information.

> Conduct on-going due diligence and scrutiny of the account/client to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile.

The Client due Diligence procedure includes three specific parameters

> Client Acceptance Policy

> Client Identification Procedure

> Categorization of Clients

* Transaction monitoring to identify & report Suspicious Transactions (STR)

* Record keeping & retention of records

*Co-operating with law enforcement agencies in their efforts to trace the

Money laundering transactions and persons involved in such activities

*On-going training to the employees to ensure strict adherence to Client Due diligence requirements

* Imparting investor education

*Reports to Financial Intelligence Unit-India (FIU-IND)

These procedures and standards would assist in knowing and understanding the trading activities of its existing and prospective clients and to prevent S.A.DESHPANDE & CO (SADCO) from being used as a medium, intentionally or unintentionally for carrying out money laundering activities. The chapters ahead detail the AML program adopted by the firm.

5. APPOINTMENT OF PRINCIPAL OFFICER

The firm has appointed Shri NILESH.B.SHAH, PARTNER of the firm as the Principal Officer for its Anti-Money Laundering Program, with responsibility mentioned below for the firm's AML program. Shri

NILESH.B.SHAH is qualified by experience, knowledge and training.

The firm has provided the FIU with contact information of the Principal Officer, including name, title, mailing address, e-mail address, telephone number and facsimile number. The firm will promptly notify FIU of any change to this information.

RESPONSIBILITIES OF PRINCIPAL OFFICER:

The Principal Officer will ensure that:

1. The PMLA Guidelines and the firm approved PMLA policy is implemented effectively by the Firm.
2. The identification and assessment of potentially suspicious transactions are done on the regular basis.
3. Firm reports the suspicious transactions to the concerned authorities within the specific time as per the PMLA policy.
4. Firm Policy on AML is regularly updated regarding any Changes/additions/ Modifications in PMLA provisions
5. Firm responds promptly to any request for information, including

KYC related information, made by the regulators, FIU- IND and other statutory authorities.

6. Any other responsibilities assigned by FIRM with respect to the implementation of PMLA guidelines issued by SEBI from time to time.

6. CLIENT DUE DILIGENCE:

6.1. CLIENT ACCEPTANCE PROCEDURE

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

1. ALL KYC Documentations and Procedures shall be followed at the time of account opening and no account shall be opened where

SADCO is unable to apply appropriate CDD measures/KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non genuine or there is perceived non cooperation of the client in providing full and complete information.

2. The submission of all documents required under this policy shall be pre-requisite for account opening for all clients. Incomplete application including incomplete documentation will be rejected.

3. SADCO will accept client to whom we are able to meet personally
Either the client should visit the office or concerned official may
Visit the client at his residence / office address to get the necessary
Documents filled in and signed. SADCO will preferably accept

Clients who live within the jurisdiction of the firm. As far as Possible, Firm will ensure that the new client is introduced by an Existing client.

The authorized official /employees of SADC0 shall personally Verify the photograph of the client affixed on the Account Opening Form [AOF] and the proof of identity documents with the person Concerned.

The authorized official of the SADC0 who has done in- person Verification and verified the documents with original should also sign On the AOF & ID proof.

4. Each original document shall be seen prior to acceptance of a copy. Stamp of “documents verified with originals” must be affixed along with the signature of the authorized person.

5. In case of any discrepancy or non-provision of information by the client, SADCO shall seek necessary clarification from the applicant and activate the account only when the discrepancy is resolved or the deficiency is fulfilled. For e.g. Cases where names mentioned on the AOF and that on the PAN Card do not match etc.
6. SADCO will verify the client's identity using reliable, independent source documents, data or information by following procedure:
 - (a) The PAN Card details should be verified with the name(s) appearing on the website of the Income Tax Department, http://incometaxindiaefiling.gov.in/challan/enter_panforchallan.jsp?PAction=Post. In case the name(s) do not match or the PAN Card details are not present in the PAN Card database, SADCO should seek necessary clarification from the applicant(s) and activate the account only when the discrepancy is resolved.

(b) SADC0 shall maintain list of the person who have been debarred by SEBI and shall update the list on the regular basis and ensure that no client's application is accepted if the name of such client falls in the list of debarred person maintained by SADC0.

(c) Precaution shall be taken as far as possible before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide provided appropriate information is available to identify a person based on PAN number/address/any other appropriate information is available to SADC0 from websites generally known for such purpose/information provided by SEBI/BSE/NSE.

(d) As per guidance provided by SEBI/BSE/NSE, SADC0 shall put in place necessary procedures to determine whether their existing/potential client is a politically exposed person (PEP) of foreign origin. Such procedures would include seeking additional information from clients, accessing publicly available information etc. as per guidance provided by SEBI/BSE/NSE.

(e) SADC0 will be careful while accepting Clients of Special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed Persons (PEP), persons of foreign origin, companies having closed share holding/ownership, companies dealing in foreign currency, shell companies, overseas entities, clients in high risk countries, non face to face clients, clients with dubious background. Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange, etc.) Or clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or

Clients belonging to countries where corruption/fraud level is high (like Nigeria, Burma, etc).SADCO will scrutinize minutely the records/documents pertaining to clients belonging to aforesaid category

7. As per guidance provided by SEBI/BSE/NSE, SADCO shall obtain Sufficient information from the clients in order to identify person Who beneficially owns and controls accounts.
8. Precaution to be taken that no account is opened in a fictitious / benami name or on an anonymous basis.
9. SADCO shall categorize its clients into low, medium and high risk as per the Client categorization procedure adopted by SADCO From time to time. Clients shall be categorized at the time of Account opening with SADCO, based on self assessment by SADCO & recommendation made by Sub-broker/ Authorized

Person who introduces the client, information provided by the Client in KYC, information available in public domain, etc. Clients of special category as stated in the SEBI circular will be closely monitored unless the client is found to be of low/ medium risk depending upon information about the client collected through KYC, etc.

10. The applicant shall be required to disclose his / her financial status & occupation details as required by PMLA. In case of Non Individual clients like, corporate, Trust, Partnership firms, etc. last 2 years balance sheet may be obtained.
11. SADCO may modify the Format of Account Opening Form (AOF) to obtain the necessary information of the client in order to achieve PMLA objective.

12. SADCO shall take reasonable measures to verify the sources of funds as well as wealth of the clients and ensure that they are routed through proper banking channels. SADCO shall reasonable steps to ensure that funds are received from a client through his bank account registered with SADCO and payment to the client will be made through ‘Account Payee’ cheque and/ or direct credit to the client bank account registered with SADCO. SADCO is neither accepting cash from its clients nor giving cash to its clients. As per SEBI directive, SADCO will get banker’s certificate whenever a client gives demand draft.

6.2 CLIENT IDENTIFICATION PROCEDURE:

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

1. SADC0 will obtain sufficient information about the client and identify actual beneficiary of transactions or on whose behalf transactions are conducted.
2. SADC0 will register clients as per SEBI/BSE/NSE guidelines and it will develop appropriate reporting system to monitor client's trades.
3. SADC0 shall periodically update all documents, data or information of all clients and beneficial owners collected under CDD procedure provided the client provides the information.
4. SADC0 shall ensure that maker-checker facility is in place for all its operation as a risk management measure as well as to increase efficiency. In case of mismatch of signature/s on PAN and the AOF, SADC0 shall ask for an alternate proof of identity bearing client's signature as put on AOF or bank verification of the signature.
5. In case a new client is Politically Exposed Person (PEP) or a new client is a relative of PEP then such client activation must be done only

After getting prior approval of Compliance Officer. Compliance Officer's approval will also be taken when a existing client become PEP at later stage

6. Verify client's identity by obtaining following documents

6.1. Documents which can be relied upon:

> PAN Card: PAN card is mandatory and is most reliable document as only one card is issued to an individual and we can independently check its genuineness through IT website.

> IDENTITY Proof: PAN Card itself can serve as proof of identity. However, in case PAN card carries an old photograph of the holder, which does not match current facial features of the client, we should take other identity proof in form of Voter's Identity card, Passport, Driving License or any Government/PSU/Bank issued photo identity card.

> ADDRESS Proof: For valid address proof we can rely on Voter's Identity Card, Passport, Driving License Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client.

6. 2. Documents to be obtained as part of client identification procedure for new clients:

a. In case of individuals, self certified copies of the following documents have to be obtained:

>PANCARD

> Other proofs for identity are Voter's Identity card, Passport, Driving License or any Government/PSU/Bank issued photo identity card or any other document prescribed by the regulatory authorities.

> Address proof in the form of Voter's Identity Card, Passport, Driving License, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client or any other document prescribed by the regulatory authorities.

> Copy of the bank statement

> Copy of the demat statement

b. In case of corporate, certified copy of the following documents must be obtained:

>PANCARD

> Copy of the Registration/Incorporation Certificate

> Copy of the Memorandum & Articles of the Association

> Copy of the PAN card and the Director Index No (DIN)

>Copy of the balance sheet for the last two financial years

- > Latest Net worth Certificate
- > Latest share holding pattern
- > Authorized signatories list with specimen signature
- > Board Resolution for appointment of the Authorized Person who will operate the account
- > Proof of address and identity of Authorized Person
- > Copy of the bank statement of company
- > Copy of the demat statement of company
- c. In case of partnership firm certified copy of the following must be obtained:
 - > PANCARD
 - > Registration certificate
 - > Partnership Deed
 - > Copy of the balance sheet for the last two financial years
 - > PAN card of partners
 - > Authorized signatories list with specimen signature
 - > Authorization letter for the person authorized to open and operate the account

> Proof of identity and address of the authorized person

> Copy of the bank statement of firm

> Copy of the demat statement of firm

d. In case of a Trust, certified copy of the following must be obtained:

> PAN card

> Registration certificate

> Trust Deed

> Copy of the balance sheet for the last two financial years

➤ List of trustees & their Pan card

> Authorized signatories list with specimen Signature

> Authorization letter for the entity authorized to act on their behalf

> Proof of identity and address of the authorized person

> Copy of the bank statement of Trust

> Copy of the demat statement of Trust

e. In case of unincorporated association or a body of individuals, certified copy of the following must be obtained:

> PAN card

> Any document to establish the legal existence/constitution of such an association or body of individuals

> Resolution of the managing body of such association or body of individuals

> Authorized signatories list with specimen signature

> PoA in favour of person authorized to transact

> Proof of identity and address of the authorized person

> Copy of the bank statement

> Copy of the demat statement

f. In case of an NRI account - Repatriable/non-repatriable, the following documents are required:

> Copy of PAN card

> Copy of the PIS permission issued by the bank

> Copy of the passport

> Proof of overseas address and Indian address

> Copy of the bank statement

> Copy of the demat statement

> If the account is handled through a mandate holder, copy of the valid PoA/mandate

6.3 CATEGORIZATION OF CLIENTS:

SADCO shall accept the clients based on the risk they are likely to pose. For this purpose, SADCO shall categorize the clients under low risk, medium risk and high risk category based on appropriate Client Due Diligence procedure.

The factors of risk perception depend on client's location, nature Of business activity, turnover, nature of transaction, manner of Payment etc.

LOWRISK:

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

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

MEDIUM RISK:

Clients that are likely to pose medium risk to SADC0 may be categorized as medium risk such as:

1. Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
2. Where the client profile of the person/s opening the account, according to the perception of the firm is uncertain and/or doubtful/dubious.
3. Intra-day clients or speculative clients. These are the clients
Who maintain running account with SADCO

HIGH RISK:

1. Entities into foreign exchange business.
2. High net worth individuals whose identity and source of wealth is difficult to identify.
3. Trusts, charities, NGOs and organizations receiving donations,
5. Politically Exposed Persons (PEPs)
6. Those with dubious reputation as per public information available, etc.

7. Clients in high risk countries as announced by appropriate authority from time to time

7. RECRUITMENT & TRAINING OF EMPLOYEES

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

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

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

SADCO shall send periodic e-mails to the Staff/Sub-Brokers for creating awareness on PMLA.

8. INVESTOR EDUCATION

SADCO will send its PMLA policy with changes in the policy from time to time to its clients for creating awareness amongst the investors.

SADCO will develop training in firm, or contract for it. Training may include educational pamphlets, videos, in-person lectures, and explanatory memos.

9. RECORD KEEPING & RETENTION OF RECORDS

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

In view of this, SADC0 shall maintain the records in terms of the provisions of PMLA. The retention period shall be modified on receiving appropriate instructions from any regulatory authority like SEBI, FIU-IND or any other statutory authority.

10. MONITORING OF TRANSACTIONS

SADC0 shall pay special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

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

Frontline staff, compliance staff and staff dealing with new clients.

The Compliance Department shall randomly examine a selection of transactions /clients and comment whether any suspicious transactions are done or not. While monitoring the transactions, SADC0 may shift the clients from one category to another depending upon the risk perceived by SADC0.

11. IDENTIFYING OF SUSPICIOUS TRANSACTIONS

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

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

Reasons for Suspicious:

>Identity of client

* False Identification documents submitted by the client at time of account opening

* Doubt over the real beneficiary of the account.

> Suspicious Background:

* Suspicious background or links with known criminals.

> Multiple Accounts

* Large number of accounts having common parameters such as common partners / directors / promoters / address/ email address / telephone numbers introducer or authorized signatory

* Unexplained transfers between such multiple accounts

> Activity in Accounts

* Unusual activity compared to past transactions

* Use of different accounts by client alternatively

* Sudden activity in dormant accounts

* Activity inconsistent with what would be expected from

Declared business

* Account used for circular trading

> Nature of Transactions

- * Unusual or unjustified complexity
- * No economic rationale or bonafied purpose
- * Source of funds are doubtful
- * Appears to be case of insider trading
- * Purchases made on own account transferred to a third party through an Off market transactions through DP account
- * Transactions reflect likely market manipulations
- * Suspicious off market transactions

> Value of Transactions

- * Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- * Large sums being transferred from overseas for making payments
- * Inconsistent with the clients apparent financial standing
- * Inconsistency in the payment pattern by client
- * Block deal which is not at market price or prices appear To be artificially inflated/deflated

12. REPORTING OF SUSPICIOUS TRANSACTIONS:

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

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

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

13. REVIEW OF POLICY

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