

EXTRACTS FROM POLICY

ON

ANTI MONEY LAUNDERING ON STOCK BROKING
AND DEPOSITORY

FOR

CREATION OF CLIENT AWARENESS

1. Background

1.1. 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 and vide letter No.ISD/CIR/RR/AML/2/06 dated 20th March 2006 had issued the obligations of the intermediaries registered under Section 12 of SEBI Act, 1992. As per these SEBI guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

2. What is Money Laundering?

2.1 Money Laundering can be defined as engaging in financial transactions that involve income derived from criminal activity, transactions designed to conceal the true origin of criminally derived Proceeds and appears to have been received through legitimate sources/origins.

2.2 This is done in three phases – Placement Phase, Layering Phase & Integration Phase.

3. Prevention of Money Laundering Act, 2002

3.1. Prevention of Money Laundering Act, 2002 (PMLA 2002) forms the core of the legal framework put in place by India to combat money laundering. PMLA 2002 and the Rules notified there under came into force with effect from July 1, 2005.

3.2.The PMLA 2002 and Rules notified there under impose an obligation on intermediaries (including stock brokers and subbrokers) to verify identity of clients, maintain records and furnish information to the Financial Intelligence Unit (FIU) - INDIA

4. Financial Intelligence Unit (FIU) – INDIA

4.1. The Government of India set up Financial Intelligence Unit-India (FIU-IND) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

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



5. Policy of INVESTSMART COMMODITIES LTD

5.1. Investsmart Commodities Ltd. has resolved that it would, as an internal policy, take adequate measures to prevent money laundering and shall put in place a framework to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002

6. Implementation of this Policy

6.1. **Dr. Narendra Jain ,Director** will be the Principal Officer who will be responsible for

- compliance of the provisions of the PMLA and AML Guidelines
- act as a central reference point and play an active role in identification & assessment of potentially suspicious transactions
- Ensure that Investsmart Commodities Ltd. discharges its legal obligation to report suspicious transactions to the concerned authorities.

6.2. The main aspect of this policy is the Customer Due Diligence Process 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 customer's identity using reliable, independent source document, data or information & **third party** relies on KYC registering authorities, or agencies which are approved by regulatory authorities.

- 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.
- Updation of documents, data, informations will be carried as under:
 1. The Depository accounts which have Average Monthly turnover of Rs. 3lacs & more & Trading Accounts which have average monthly turnover of 5lacs & above in delivery & Rs. 50 lac in Square off will be carried once in every 3 years.
 2. For rest active accounts once in 7 years & if it is disabled than 7 years or date of enablement

➤ 6.3. The Customer Due Diligence Process includes three specific parameters :

- Policy for Acceptance of Clients
- Client Identification Procedure
- Suspicious Transactions identification & reporting

7. Customer Acceptance Policy

7.1.

- Each client should be met in person: Accept client whom we are able to meet personally. Either the Client should visit the office/branch or concerned official may visit the client at his residence / office address to get the necessary documents filled in and signed. Preferably accept clients who live within the jurisdiction of the branch. -The identity of the client can be established through the identity proof submitted by the client. In addition we will like to have client introduced by an existing client, staff, if possible

- Accepts client on whom we are able to apply appropriate KYC procedures: Obtain complete information from the client. It should be ensured that the initial forms taken by the client are filled in completely. All photocopies submitted by the client are checked against original documents without any exception. Ensure that the 'Know Your Client' guidelines are followed without any exception. All supporting documents as specified by Securities and Exchange Board of India (SEBI) and Exchanges are to be obtained and verified
- Do not accept clients with identity matching persons known to have criminal background: Check whether the client's identify matches 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/regulatory agency worldwide
- Be careful while accepting Clients of Special category: We should 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). Scrutinize minutely the records / documents pertaining to clients belonging to aforesaid category
- Do not accept client registration forms which are suspected to be fictitious: Ensure that no account is being opened in a fictitious / benami name or on an anonymous basis.
- Do not compromise on submission of mandatory information/ documents: Client's account should be opened only on receipt of mandatory information along with authentic supporting documents as per the regulatory guidelines. Do not open the accounts where the client refuses to provide information/documents and we should have sufficient reason to reject the client towards this reluctance.

7.2. Customer Identification Procedure (FOR NEW CLIENTS)

Objective: To have a mechanism in place to establish identity of the client along with firm proof of address to prevent opening of any account which is fictitious / benami / anonymous in nature. For this purpose, firstly we have to identify the beneficial owner which can be done as under :

- a) sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who Obtaining ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement
- b) Verify the client's identity using reliable, independent source documents, data or information

c) 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 -

i. **¹For clients other than individuals or trusts:** Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

aa) The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

Explanation: Controlling ownership interest means ownership of/entitlement to:

- i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company
- ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
- iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

bb) In cases where there exists doubt under clause (aa) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

cc) Where no natural person is identified under clauses (aa) or (bb) above, the identity of the relevant natural person who holds the position of senior managing official.

ii. **For client which is a trust:** Where the client is a trust, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% 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.

iii. **Exemption in case of listed companies:** Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

7.2.1. 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, Ration Card or any Government/PSU/Bank issued photo identity card.
- ADDRESS Proof: For valid address proof we can rely on Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client.
- RELIANCE ON THIRD PARTY: We will be relying on third party, such as KYC Registering Authorities like CVL, NDML DOTEX ETC, who are eligible to do so as per PMLA guidelines for carrying client due diligence for the purposes of (a) Identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of beneficial owner and verification of the identity of the beneficial owner

7.2.2. Documents to be obtained as part of customer identification procedure for new clients:

A. In case of individuals, one copy of the following documents have to be obtained:

- As PAN is mandatory, verify its genuineness with IT website and cross verify the PAN card copy with the original. [Please put "verified with original" stamp as proof of verification]
- Other proofs for identity are Voter's Identity card, Passport, Ration Card 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, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client or any other document prescribed by the regulatory authorities.

B. In case of corporates, one certified copy of the following documents must be obtained:

- 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 latest audited Annual Statements of the corporate client
- Latest Net worth Certificate
- Latest Income Tax return filed.
- Board Resolution for appointment of the Authorized Person who will operate the account.
- Proof of address and identity of Authorized Person

C. In case of partnership firm one certified copy of the following must be obtained:

- Registration certificate
- Partnership Deed

- PAN card of partners
- Authorization letter for the person authorized to open and operate the account
- Proof of identity and address of the authorized person.
- Annual statement/returns of the partnership firm

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

- Registration certificate
- Trust Deed
- PAN card
- Authorization letter for the entity authorized to act on their behalf
- Officially valid documents like PAN card, voters ID, passport, etc of person(s) authorized to transact on behalf of the Trust.

E. In case of unincorporated association or a body of individuals, one certified copy of the following Must be obtained:

- Resolution of the managing body of such association or body of individuals
- PoA in favor of person authorized to transact
- Officially valid documents like PAN card, voters ID, passport, etc of the person(s) authorized to transact
- Any document required by Investsmart to establish the legal existence of such an association or body of individuals.

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

- Copy of the PIS permission issued by the bank
- Copy of the passport
- Copy of PAN card
- 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

8. Risk Profiling of the Client

8.1. We should accept the clients based on the risk they are likely to pose. The aim is to identify clients who are likely to pose a higher than average risk of money laundering or terrorist financing. For this purpose, we need to classify the clients as Low risk, medium risk and high risk clients. By classifying the clients, we will be in a better position to apply appropriate customer due diligence Process. That is, for high risk client we have to apply higher degree of due diligence. The factors of risk perception depend on client's location, nature of business activity, turnover, nature of Transaction, manner of payment etc.

8.2. In order to achieve this objective, all clients of the branch should be classified in the following category:

- Category A – Low Risk
- Category B – Medium Risk
- Category C – High risk

8.2.1 **Category A**- Low risk clients: clients which do not belong to any special category & whose identity is well established. Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk

8.2.2 **Category B** – Medium risk Clients : Clients of special category like HNI/NRI/TRUSTS/NGOS/PEP etc who do not have exposure to foreign country.

8.2.3—**Category C**-High risk Clients: Clients of special category who have access to /or have foreign exposure whether with high risk countries or not

8.3. We have to be careful while monitoring the transactions of B and C category clients.

8.4 Category C clients i.e. high risk clients Account will be opened only after obtaining Senior management approval

8.5. Any change in the risk profile of the client/mandate holder, has to be ascertained by the concerned branch officials, and reported to the Business Head immediately.

8.6 **List of Designated Individuals/Entities** An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) will be accessed from website at <http://www.un.org/sc/committees/1267/consolist.shtml> and <http://www.un.org/sc/committees/1988/list.shtml> and if the Name of prospective client name appears in the list, his account will not be opened

9. **RECORD MAINTAINANCE:** All the documents relating to KYC along with identity proof, transactions will be maintained/kept as per the guidelines issued by SEBI or other regulatory authorities from time to time. Specifically, as per SEBI master Circular no. 104 dtd 4th July, we will maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA. Such transactions include;

- i. All cash transactions of the value of more than ` 10 lakh or its equivalent in foreign currency.
- ii. All series of cash transactions integrally connected to each other which have been valued below ` 10 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
- iii. All suspicious transactions whether or not made in cash and including, inter- alia, credits or debits into from any non-monetary account such as demat account, security account maintained by the registered intermediary.

9.1 In case of closed account KYC documents, Account files, business correspondence will be maintained & preserved for eight years from the date business relationship with the client ended

9.2 RECORDS OF INFORMATION REPORTED TO THE DIRECTOR FINANCIAL INTELLIGENCE UNIT :Company will maintain and preserve the record of information related to transaction whether attempted or executed which are reported to Director FIU-IND as required under rules for the period of five years from the date of transaction between the clients & company.

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

10. Suspicious Transactions

All are requested to analyze and furnish details of suspicious transactions, whether or not made in cash. It should be ensured that there is no undue delay in analysis and arriving at a conclusion.

10.1. What is a Suspicious Transaction: Suspicious transaction means a transaction whether or not made in cash, which to a person acting in good faith -

- Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- Appears to be made in circumstance of unusual or unjustified complexity; or
- Appears to have no economic rationale or bona fide purpose

Reasons for Suspicious:

- Identity of client
 - False identification documents
 - Identification documents which could not be verified within reasonable time
 - Non-face to face client
 - Clients in high-risk jurisdiction
 - Doubt over the real beneficiary of the account
 - Accounts opened with names very close to other established business entities
 - Receipt back of well -come kit undelivered at the address given by the client
- Suspicious Background
 - Suspicious background or links with criminals
- Multiple Accounts



- Large number of accounts having a 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 s
- Account used for circular trading

➤ Nature Of Transactions

- Unusual or unjustified complexity
- No economic rationale or bonafied purpose
- Source of funds is 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 pay ments
- 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

10.2. What to Report

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.
- The reason of suspicion.

11.Freezing of Accounts : a. If the account is not being operated for more than one year we may Temporarily freeze the account and the freezed account will be in operation only after taking bonafides of the client.

b. Account will be freezed if any communication from regulatory authority is received debarring the client
c. Account will be freezed if any suspicion comes regarding bonafides of the client , nature of business of the client till the suspicion is cleared.

12. Employees, Hiring/Employee's Training/Investor Education:



12.1 While appointing an employee, Screening will be done on (a) family background (b) Educational Qualification (c) Intelligence & capability to handle the work assigned.

12.2 At present In person training is imparted to the staff relating to the work assigned to him & the Aspects of AML/CFT policy related to his work..

12.3 At the time of accepting investor as a client, he will be briefed regarding AML\CFT policies. And to be informed regarding calling of his personal information like source of funds\security , supported by the documentary evidences like Income Tax Returns, Bank, Depository Transactions etc.

13. **REVIEW OF POLICY** : Policy will be reviewed as and when required due to change in PMLA guidelines, operational guidelines issued from the competent authorities time to time.or atleast once in 3 year

14. Designated Principal Officer/Designated Director

In case any further information /clarification is required in this regard, the following officers may be contacted.

1 PRINCIPAL OFFICER:

Dr. Narendra Jain
Director
Investsmart Commodities Ltd..
307, A Shree Vardhan Complex
4, R.N.T. Marg Indore (M.P.) 452001
Tel.:- 0731-2525476, 4025476, 3086022
Fax: - 0731-2529419.
E-mail:- ceoinvestsmart@yahoo.com

2. DESIGNATED DIRECTOR

Ghanshyam Das Goyal
Director
Investsmart Commodities Ltd.
307, A Shree Vardhan Complex
4, R.N.T. Marg Indore (M.P.) 452001
Mobile no. 919893393832
E-mail:-ceoinvestsmart@yahoo.com