

# VAIBHAV STOCK & DERIVATIVES BROKING PVT. LTD.

Corporate Member: National Stock Exchange of India Ltd. (NSE)

Corporate Office: 301-308, 3rd Floor, Bhagwati House, A/19, Veera Desai Road, Andheri (West), Mumbai - 400 058

Tel.: 91-22-2673 2602/03/04/6570 4167/68/69/70/71 Fax: 91-22-2673 2642

CIN : U67120MH2004PTC235313

## ANTI MONEY LAUNDERING POLICY VERSION 2

### INTRODUCTION

Money Laundering has become a big issue which each and every country is trying to combat. It is suspected that one of the ways of laundering money is through securities market transactions. Hence, pursuant to the recommendations made by the Financial Action Task Force (formed for combating money laundering), Government of India had notified the Prevention of Money Laundering Act in 2002. This Act forms the core of the legal frame work to combat money Laundering. Subsequently, Government of India had issued a Notification dated 1st July 2005 defining Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information, Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries under Anti Money Laundering The Government of India set up Financial Intelligence Unit India (FIUIND) on 18<sup>th</sup> November 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister. FIUIND 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. In view of this, 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 letter No.ISD/CIR/RR/AML/2/06 dated 20th March 2006 SEBI had also issued the obligations of the intermediaries registered under Section 12 of SEBI Act, 1992. The objective of the SEBI guidelines is that a registered intermediary and any of its representatives should implement, identify and discourage any money laundering or terrorist financing activities. The overriding principle is that the registered intermediary should be able to satisfy themselves that the measures taken by them are adequate, appropriate and follow the spirit of these measures and the requirements as enshrined in the Prevention of Money Laundering Act, 2002 (PMLA) and the Government of India Notification dated 1st July 2005. 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 and NSE vide their various circulars had suggested the criteria on which suspicious secondary market transactions can be identified by a SEBI registered broker and criteria for generating alerts



## **Responsibility of Vaibhav Stock and Derivatives Broking Pvt. Ltd. (VSDBPL)**

By virtue of being a SEBI Registered stock broker of NSE, it is mandatory on the party of VSDBPL to have appropriate Anti Money Laundering policy. The objectives of this policy are :

- a. To ensure that appropriate statement of policies and procedures, are issued, on a group basis, wherever applicable, for dealing with money laundering and terrorist financing reflecting the current statutory and regulatory requirements.
- b. The contents of these Guidelines are understood by all staff members.
- c. The policies and procedures are reviewed regularly to ensure their effectiveness.
- d. Customer acceptance policies and procedures, which are sensitive to the risk of money laundering and terrorist financing are adopted.
- e. Customer Due diligence (CDD), to the extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of customer, business relationship or transactions is undertaken
- f. Staff Members' awareness and vigilance to guard against money laundering and terrorist financing is developed.

Vaibhav Stock and Derivatives Broking Pvt Ltd (VSDBPL) has resolved that it would as an internal policy shall take adequate measures to prevent money laundering and shall make a framework to report cash and suspicious transactions FIU as per the guidelines of PMLA Rules, 2002.

In view of the above, the existing AML policy of VSDBPL was reviewed for its effectiveness and adequacy. After review, it was felt that based on the current situation, the VSDBPL's AML policy needs to be strengthened. Hence, this next version of VSDBPL's AML policy (Version 2) is being brought out.

### **Principal Officer**

Shri Vaibhav P. Shah will be the Principal Officer who will be responsible for implementation and Compliance of the provisions of PMLA, 2002 and VSDBPL's AML Policy. Shri Vaibhav P. Shah will be responsible for ensuring that VSDBPL discharges their legal obligation against Money Laundering to report suspicious transactions to the concerned authorities. The Principal Officer will act as a central reference point and will play an active role in the identification and assessment of potentially suspicious transactions.

The Principal Officer will constantly review the AML Policy of VSDBPL covering the areas of identification/verification/acceptance of customers and the parameters of identification of suspicious transaction.

The Principal Officer will give an orientation to all the concerned staff of VSDBPL on the guidelines of FIU/SEBI and the identification of Suspicious Transactions on a regular basis. Some of these suggested measures may not be applicable in every circumstance to each business activity. However, keeping in mind, the specific nature of its business, type of customer and transactions in each business division, VSDBPL



has to satisfy itself that the measures taken are adequate and appropriate to follow the spirit of these guidelines.

### **CUSTOMER DUE DILIGENCE POLICY**

The objective is to ensure that VSDBPL :

- a. Obtains sufficient information about to the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted.
- b. Verify the customer's identity using reliable, independent source, document, data or information.
- c. Conduct ongoing 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. Every year the financial statements to be taken on record for all corporate clients.

Thought it is not possible to know all the details and exact details of the client's background and financial status, it should be our endeavor to make a genuine attempt towards achieving this.

This will be done in two ways :

#### **Customer Acceptance Policy**

Each client should be met in person, before accepting the KYC. The client should be met at the address given in the KYC. This will ensure that the address is also verified. Verify the PAN details on the Income Tax website.

All documentary proofs given by the client should be verified with original. Documents like latest Income Tax returns, annual accounts, etc. should be obtained for ascertaining the financial status. If required, obtain additional information/document from the client to ascertain his background and financial status. Obtain complete information about the client and ensure that the KYC documents are properly filled up, signed and dated. Scrutinize the form thoroughly before forwarding it for account opening.

Ensure that the details mentioned in the KYC matches with the documentary proofs provided and with the general verification done by us. If the client does not provide the required information, then we should not open the account of such clients. As far as possible, a prospective client can be accepted only if introduced by VSDBPL's existing client. However, in case of walk-in client, extra steps should be taken to ascertain the financial and general background of the client.

If the account is opened by a PoA/Mandate Holder, then we need to clearly ascertain the relationship of the PoA/Mandate Holder with the client. Apply the KYC procedures to the PoA/Mandate Holder also.



We should not open any accounts in fictitious/benami/anonymous basis. We should not open accounts where we are unable to apply appropriate KYC procedures.

**For existing clients :**

Keep updating the financial status of the client by obtaining the latest Income Tax Return, Networth Certificate, Annual Accounts etc. Update the details of the client like address, contact number, demat details, bank details etc. and keep the Account Opening Team at HO informed of the same. In case, at any point of time, we are not able to contact the client either at the address or on the phone number, please stop dealing for the client and inform the Principal Officer.

Check whether the client's identity 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 local enforcement/regulatory agency. For scrutiny / back ground check of the clients / HNI, websites such as [www.watchoutinvestors.com](http://www.watchoutinvestors.com) should be referred. Also, Prosecution Database / List of Vanishing Companies available on [www.sebi.gov.in](http://www.sebi.gov.in) and RBI Defaulters Database available on [www.cibil.com](http://www.cibil.com) should be checked.

Scrutinize minutely the records / documents pertaining to clients of special category (like Nonresident clients, High Net worth Clients, Trusts, Charities, NGOs, Companies having close family shareholding, Politically exposed persons of foreign origin, Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange offerings, etc.) or clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption/fraud is highly prevalent. Review the above details on a going basis to ensure that the transactions being conducted are consistent with our knowledge of customers, its business and risk profile, taking into account, where necessary, the customer's source of funds.

**Role of Relationship Manager/Dealer/Corporate Settlement/Accounts Department**

Ensure that there is no currency receipts/payment to the client.  
Ensure that there are no third party receipts into / payment from the clients account  
Ensure that any information gathered during formal or informal conversation with clients relating to Money Laundering is passed on to the Principal Officer through your Department Head

**RISK PROFILING OF THE CLIENT**

It is generally recognized that certain customers may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business relationship or transaction etc. Typically the clients of VSDBPL should be classified as High Risk, Medium Risk, Low Risk



Risk Category	Indicative List of clients*
High Risk	<ul style="list-style-type: none"> <li>a. Non resident clients,</li> <li>b. High networth clients,</li> <li>c. Trust, Charities, NGOs and organizations receiving donations</li> <li>d. Politically exposed persons (PEP) of foreign origin</li> <li>e. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)</li> <li>f. Companies offering foreign exchange offerings</li> <li>g. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.</li> <li>h. Non face to face clients</li> <li>i. Clients with dubious reputation as per public information available etc.</li> </ul>
Medium Risk	Individual and Non-Individual clients falling under the definition of Speculators, Day Traders and all clients trading in Futures and Options segment
Low Risk	Senior Citizens, Salaried Employees and a major portion of client who indulge in delivery based trading, group companies, directors, family members of directors

\*This list is indicative. The risk profile also depends on trading pattern, payment pattern, financial status and background of the client.



## **MONITORING OF TRANSACTIONS**

VSDBPL, on a ongoing basis, should monitor the transactions executed by the client in order to ascertain whether the same is 'suspicious' which should be reported to FIU, India.

### **Suspicious Transactions are those which :**

- a) gives rise to reasonable grounds of suspicious that it may involve proceeds of crime
- b) appears to be made in circumstances of unusual or unjustified complexity
- c) appears to have no economic rationale or bonafide purpose

### **Factors giving rise to suspicion are :**

Client Background / Identity & Receipt/Payment pattern

Clients whose identity verification is difficult which includes no cooperation of the client also.

Asset Management services for the clients where the source of the funds is not clear keeping in mind the client's financial standing/business activity

Clients belonging to (or) introduced by persons/entities in high risk countries

Increase in business without justification and Turnover not commensurate with financials

Unusual large cash deposits

Overseas receipts/payments of funds with or without instructions to pay in cash

Transfer of proceeds to unrelated parties

### **Dealings of CSCs**

## **CRITERIA FOR ASCERTAINING SUSPICIOUS TRANSACTIONS**

Surveillance/RMS Alerts based on the client's transactions on NSE

Unusually large transactions like, clients having traded in scrip/shares of a company over a threshold quantity /value in a single day and volume in that scrip of that client is above a threshold percentage of the total volume in that scrip of the Exchange.

Negotiated trades /Matched trades.

Client's Turnover not commensurate with financials

Relation of the client with the company / directors / promoters.

Clients making huge and regular losses and are still placing trades/orders and further identifying the Sources of funds in such cases.

Any debit transaction in a dormant account for exceeding a threshold quantity/value whichever is smaller, will be reported as an alert. An account having no 'Debit' Transaction' in the last 'n' months will be considered as 'Dormant' account for this purpose.



### **Alerts generated by Compliance Software**

VSDBPL has an in-house software which gives alerts for certain transactions. The Compliance team forwards these alerts to Principal Officer who verifies the data and decides whether to send these alerts to FIU or not. These alerts are

Details of matching trades i.e. with same trade numbers  
Trading in scrips below Rs.20/-  
Change in Client Codes  
Trades in scrips where volume of our clients is above 20% of market turnover  
Error Trades and F&O margin shortage

### **Reporting of Suspicious Transaction**

Any suspicious transactions, identified by the Principal Officer or brought to the notice of the Principal Officer, will be analysed by the Principal Officer. If the Principal Officer decides that the transactions need to be reported to FIU he will report the transaction to FIU. If the Principal Officer decides not that the transactions is not suspicious enough to be reported to FIU, he will record the reasons for the same and document it.

If any transaction has been reported, as suspicious, to FIU, the Principal Officer has to keep the same confidential. The transaction of the client will be executed, as usual, unless and until told specifically by the Principal Officer to discontinue dealing/close the account of such clients. No suspicion should be created in the client's mind on the steps taken by VSDBPL.

### **Maintenance of Records**

The records have to be maintained, in full, for a period of 10 (ten) years. The information that needs to be maintained are: nature of the transactions amount of the transaction and the currency in which it was denominated date on which the transaction was conducted parties to the transaction

Specific information that needs to be stored are:

all cash transactions of more than Rs.10.00 lakhs value or its equivalent in foreign currency

all series of cash transactions integrally connected to each other which might have been, individually, valued at less than Rs.10.00 lakhs but the aggregated of such transactions might be over Rs.10.00 lakhs

all suspicious transactions whether or not made in cash.



Deposits/withdrawals into or from any account, in any currency by way of third party cheques (or) pay orders (or) demand drafts (or) transfer from one account to another within VSDBPL (or) overseas receipts or payments.

### **Review of this Policy**

This Policy will be reviewed from time to time by a Committee comprising of the Principal Officer, concerned Business Heads and the Compliance Head. The proceedings of the Review Committee should be informed to the Board of VSDBPL.

### **Training**

The Principal Officer will arrange to conduct regular training to all the employees to ensure that the contents of the guidelines are understood develop awareness and vigilance to guard against money laundering and terrorist financing.

### **Assistance**

Any assistance required in understanding this policy and in implementation of this Policy, please contact the Principal Office.

### **MONITORING OF TRADING ACTIVITY**

Trading exposure/turnover limits to be given to clients based on their margin available in the system. It is also the duty of Risk Management to validate such exposures with the financial details provided by the client in KYC forms. If the trading activity of the client, which is not commensurate with the financial details declared by the client, it should be analyzed and referred to the Principal Officer with reasons of suspicion. (can only be done offline after having a utility to capture financial details / net worth of the client)

### **MAINTENANCE OF RECORDS**

All records should be preserved as required by the regulatory authorities. Additionally, following records should be preserved for a period of ten years from the date of cessation of the transaction with the client. In situations where the records relate to ongoing 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:

The records of the identity of clients  
All suspicious transactions

### **Audit Trail**

To enable any competent investigating authorities to trace through the audit trail, the following information for the accounts of customers is required to be maintained.

The beneficial owner of the account;





The volume of the funds flowing through the account / and for the selected transactions:

The origin of the funds :

The form in which the funds were offered or withdrawn, e.g. cheques, bank drafts / pay order etc.:

The identity of the person undertaking the transaction;

The destination of the funds;

The form of instruction and authority

The identity of official who made inperson verification

The identity official who verified copies documents obtained from client with originals

### **CASH TRANSACTIONS**

All are requested not to accept cash from the clients whether against obligations or as margin for purchase of securities or otherwise. All payments shall be received from the clients strictly by account payee crossed cheques drawn in favour of Vaibhav Stock and Derivatives Broking Pvt Ltd. or through Internet Transfer / RTGS. The same is also required as per SEBI circular no. SMD/ED/IR/3/23321 dated November 18, 1993 and SEBI/MRD/SE/Cir33/2003/27/08 dated August 27, 2003.

Incase account payee cheques have been received from a bank account other than that captured in records the same can be accepted after ascertaining that the client is the first holder of the account. Relevant copies of the supporting documents should be sent to HO and details of such accounts should be captured in records.

Only in exceptional cases, bank draft/pay order may be accepted from the client provided identity of remitter/purchaser written on the draft/pay order matches with that of client else obtain a certificate from the issuing bank to prove that instrument has been drawn after debiting the bank account of the client .

### **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.

#### **What is a Suspicious Transaction**

Suspicious transaction means a transaction whether or not made in cash, which to a person acting in good faith

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



## Reasons for Suspicion

### IDENTITY OF CLIENT

False identification documents  
Identification documents which could not be verified within reasonable time.  
Nonface 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.

### SUSPICIOUS BACKGROUND

Suspicious background or links with 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 businesses  
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 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.

### **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  
The parties to the transaction and  
The reason of suspicion.

### **WHEN TO REPORT**

In terms of the PMLA rules, brokers and subbrokers are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit India (FIUIND) 6<sup>th</sup> Floor, Hotel Samarat, Chanakyapuri, New Delhi 110021 within 7 working days of establishment of suspicion at the level of principal officer.

In view of the same, Departments are requested to report the said transactions within 3 working days of establishment of suspicion to enable the Principal Officer to report the same to the Director, Financial Intelligence Unit India (FIUIND) within the stipulated time.

### **REPORTING OF SUSPICIOUS TRANSACTIONS TO FIUIND THROUGH**

All Department Heads are required to report suspicious transactions to the Principal Officer which would in turn be reported to FIU.

### **OTHER IMPORTANT POINTS**

Reasons for treating any transaction or a series of transactions as suspicious should be recorded. It should be ensured that there is no undue delay in arriving at such a conclusion.

Utmost confidentiality should be maintained in submitting the information.

The reports may be transmitted by email/speed/registered post/fax at the Office addressed to the Principal Officer.

No restriction may be put on operations in the accounts where a Suspicious Transaction Report has been made.

It should be ensured that there is no tipping off to the client at any level.

### **DESIGNATED PRINCIPAL OFFICER**

In case any further information /clarification are required in this regard, the 'Principal Officer' may be contacted.

\*\*\*\*\*

