

Suresh Rathi Securities Pvt. Ltd.

(Issued as per the requirements of thePMLA Act 2002)

SEBI references:

Master Circular no. SEBI/HO/MIRSD/MIRSD-SEC-5/P/CIR/2023/022 dated February 3, 2023

Background:

Pursuant to the recommendations made by the financial Action task force on Anti Money Laundering standards vide their notification No.ISD/CIR/RR/AML/1/06 dated 18th January 2006 and SEBI Circular and Directives including SEBI Master Circulars ref. SEBI/HO/MIRSD/DOS3/CIR/P/2018/104 dated 04-July-2018.

What is Money Laundering?

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 legitimate sources / origins.

Prevention of Money Laundering Act, 2002

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 2005.

The PMLA 2002 and rules notified there under impose an obligation on intermediaries (including stock brokers and AP's) to verify identity of clients, maintain records and furnish information to the Finance Intelligence Unit (FIU) – INDIA

Financial Intelligence Unit (FIU)– INDIA

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 .

Policy & Procedures of Suresh Rathi Securities Pvt. Ltd.

Suresh Rathi Securities Pvt. Ltd. has resolved that it would fully implement the systems and the measures to prevent Money Laundering to combat Financial Terrorism to put in place a system, procedure to generate alerts / suspicious transactions and to report them to FIU if required. The policy would be created by the management and also the

same would be implemented in a very systemic manner. The Policy would try to cover all the aspects and also the same would be reviewed Half yearly (the last reviewed date is 30th September 2020). The periodical review of PMLA policy is done by any DP official other than the official who originally drafted the policy. The appropriate changes, addition, deletion would take place as and when the management may feel so implementation of this Policy

Principal Officer: Ms. Neelam S Ingle is appointed as the Principal Officer as required under the PMLA, 2002. She will be responsible for implementation of internal controls & procedures for identifying and reporting any suspicious transaction or activity to the concerned authorities.

Designated Director for PMLA: Mr. Lalit Mundra is appointed as the Designated Director for PMLA on 07-07-2014 as per communiqué No. 2236 & 4309 of CDSL. The designated director is responsible to ensure overall compliance with the obligation imposed under chapter IV of the Act and the Rules. A Designated Director is a whole – time Director duly authorized by the Board of Directors of the company

Customer Acceptance Policy & Client Identification Procedure: -

Suresh Rathi Securities Pvt. Ltd as a company does not resort to aggressive advertising and not even advertisements so most part of the clients are either through the AP and the Branch Network or through the remisiers. In most cases the new client would generally be introduced through an existing client and, or through the reference of some known person in the nearby Vicinity.

In Person Verification is done for all the clients and the original proofs also verified. In a few cases clients have been denied to open the account, on account of lack of transparency and absence of client proof at the mentioned address on the KYC.

Checking the records with the Client in the barred list: - Before opening the client account it is also verified that the client is not a part of the Debarred List. This will help us in not opening erroneously account of a debarred client or entity. The lists used are the lists are

1. SEBI Debarred List
2. UNSC
3. PEP
4. OFAC (Office of Foreign Access and Control given by US Treasury Dept)

5. www.Watchoutinvestors.com

If a client is found matching with OFAC, UNSC or with SEBI Debarred list we would not open the account and immediately inform the Principal Officer/Management for further action

If a client is a Politically Exposed Person we will not open the account without prior written consent of the management. And after opening this account will be immediately classified as CSC.

Extra care is taken while handling a new account of an NRE repatriable client or for that matter any client who seems to be a part of the Clients with Special Category (CSC). High scrutinization of documents will be done in these cases and additional documents may be called for satisfaction.

No relaxation on any information, the client is not allowed to skip providing any mandatory information or documentation and all the clients are necessarily made to comply with all kind of documents.

Summarizing the steps of Opening the account are as below:

1. Checking for KYC and mandatory information in the form.
2. In person verification
3. Verification with original documents
4. Checking of client with screening database consisting of four sources i.e., SEBI, UNSC, PEP (PEP Detailed handling explained) and OFAC.
5. Verification of Pan with Income Tax Database.
6. CSC marking. (Detailed handling explained)
7. Dispatch Photocopies of KYC and Welcome Letter on the address mentioned in the account opening form.
8. Welcome Email is sent to clients designated Email address.
9. We also verified email addresses and mobile numbers of clients to ensure that two accounts of different families are not having the same email address or mobile no.

Client Due Diligence: It basically means Customer due diligence which is nothing but an ongoing process consisting of broadly three parts. Customer acceptance policy,

Client Identification and generation of suspicious transaction, monitoring, reviewing and reporting if required.

We identify Beneficial Owner ship and name of person controlling the client from MCA website & collection of information from the client.

i. For 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, SRSPL 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, SRSPL 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 will not be necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

iv. Applicability for foreign investors

While dealing with foreign investors, SRSPL will be guided by the clarifications issued vide SEBI circulars CIR/MIRSD/11/2012 dated September 5, 2012 and CIR/ MIRSD/ 07/ 2013 dated September 12, 2013, for the purpose of identification of beneficial ownership of the client.

v. Monitor of compliance

The compliance of the aforementioned provision on identification of beneficial ownership shall be monitored by the Compliance team of SRSPL.

We may rely on a third party for the purpose 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 the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time and undertaking enhanced due diligence measures, as applicable

PEP Identification:

There are 3 ways that a client could be marked as a politically exposed person

- 1. KYC Form:** The client voluntarily declares that he is a PEP or relative of a PEP. Provisions have been made and, in the client, account opening form the clients fill up if he is eligible
- 2. Employee or AP Indication:** An employee or the AP or any channel which may know that the client is PEP or a relative of PEP is encouraged to inform the management or the compliance team about the same. Effort is constantly being

made to make the employees aware of the importance of identifying a PEP or a relative of a PEP.

3. **Screening Database:** The Screening solution has a PEP database which also contains PAN numbers, the new client and the existing clients are screened through this to identify a PEP or a relative of a PEP.

PEP Due diligence after identification and approval

1. The client will be marked as a special category
2. The client will be marked as a high risk

Special Category Clients

The categorization of the clients is done in special category at the account opening stage itself immediately. In some cases, like if a client's reputation is known to be not good after the account is opened or another account with same beneficiaries is opened then both old and new accounts are to be marked as special category.

The following are the Special Categories that are currently created and clients are being categorized in these whenever applicable. The Solution used also has provisions for creating more and more special categories as and when required.

1. NRI
2. High Net Worth Client
3. Trust, Charity and NGOs
4. Close family shareholdings or Beneficial Ownership:
5. Politically Exposed Persons
6. Company offering foreign Exchanges
7. Client in High-Risk Country
8. Non-Face to Face Client
9. Client with dubious Public Reputation

1. **NRI:** While opening NRI account an NRI Repatriable or NRI Non Repatriable utmost care should be exercised.
2. **High Networth Clients:** High networth clients could be classified if at the account opening stage or during the course of the relationship, it is realized that the clients' investments or the appetite for investment is high.
3. **Trust, Charity and NGOs:** Both public as well private, registered as well non registered trust will have to be classified in the special category. Any Charitable or Non-governmental organization or a no Profit Organization will be also classified herein.
4. **Close family shareholdings or Beneficial Ownership:** In case of close family shareholdings the objective is to understand whether the beneficiaries of two or more accounts, which may also be opened at different times are same, then both need to be marked under this special category.
5. **Politically Exposed Persons:** In case of PEPs, care is taken while opening the account, as the same is opened only after opening account with the consent of the senior management and all the required documents are collected.
6. **Company offering foreign Exchanges:** At the account opening stage if it is to our knowledge that the individual or the entity is registered foreign exchange dealer, then the same may be categorized.
7. **Client in High Risk Country:** We avoid to open any account received from client who was residing in a high risk jurisdiction and may have investment proceeds which may have also originated from these countries. Currently the list of these countries.

Iran, Korea, Bolivia, Cuba, Ethiopia, Kenya, Myanmar, Sri Lanka, Syria, Turkey.
8. **Non Face to Face Client:** In person verification is done for all clients. But there may be clients who may register a power for somebody else in their account and in that scenario as the account would be controlled not by the account holder but by some other individual we would treat as a non face to face account and the same would be categorized accordingly.
9. **Client with dubious Public Reputation:** If a client's reputation during the opening of the account or post opening the account is known to be not good, then the same is marked in this special category.

If a client falls into any of the above categories the client should be marked as a “CSC”, client of special category and the risk level immediately should be allocated as “**High**”.

Risk Profiling of the Client: -

We should accept the client 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.

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.

In order to achieve this, all clients should be classified in the following category;

Low

Medium

High

It is extremely important to understand that the financial risk is different from the Money laundering risk and this will be covered in the training sessions and other interactions that happen with staff in reference to Anti Money Laundering of CFT.

Implementation of the Risk Profiling Policy

There are two different stages where the risk profiling of the client could be done or upgraded.

On boarding Risk: This is the risk profile which is given to the client at the time of registering the client with our organization.

Review of Risk constantly after the On Boarding: This is basically continuously review the client and to upgrade the clients risk whenever required from lower level to the higher level.

In exceptional circumstances the KYC team may allot the “**medium**” risk to the client if there is a sufficient reason that the client should be above low and not high.

The ongoing risk review can trigger the client’s risk to be upgraded based on the following parameters or events.

Transaction monitoring is an extremely important aspect of the risk profiling system. Whenever the RMS Team sees that a client is doing or having an unusual or a suspicious trading pattern also from the same dashboard sees the income and networth of the client along with risk level and the special category if any one of the

scenarios, then he or she could immediately upgrade the risk of the client from Low to medium or from medium to high. This risk allocation will happen through the alerts dashboard of the AML system immediately and the RMS team member does not need any approval to do so.

Generation of Suspicious Transactions

All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;

- all series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month;

1) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;

- all suspicious transactions whether or not made in cash. 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 circumstances of unusual or unjustified complexity; or appears to have no economic rationale or bonafide purpose; or

gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism The records shall contain the following information:

- 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."

Alerts generated by AML system

Parameters available on the Dashboard / Reports: Following are the parameters / nature of alerts / reports / scenarios available

➤ **Group Parameter 1 (Client Scrip Concentration).**

To understand whether a given client is focusing on a particular script over a period of x period. Also analysis of his focus on the investment pattern.

➤ **Group Parameter 2 (Client Exchange Volume)**

To understand the intent of the client on his share of turn over, trades, percentage, movement of the price over that period. Clubbed report for a period for a client for a script. This will help to understand whether there is an intent to do transactions of no economic rationale or manipulation.

In the intent is to get highlighted clients when they have unusually large positions with the exchange for a given instrument, the number of occasions done in different scripts. This could help in trying to understand matched trades between different brokerage houses through the indicator of the number of trades in the exchange and the client.

➤ **Group parameter 3: (Client Purchase to Income)**

This parameter tells you the financial size vis a vis the fund flow and whether there is violation.

This should bring those clients whose income is X and are bring funds in multiple of X.

➤ **Group parameter 4: (Synchronized Trading)**

Highlight clients who are trading within themselves or group of individual.

➤ **Group parameter 5: (Client Net Sell)**

This criteria will highlight to clients which have been net selling. The idea here is to understand the source of securities or the way in which profit is generated.

Factors considered are

Buy and sell in BSE Equities & NSE Equities

➤ **Group parameter 6: (Money Flow In)**

This criteria will highlight to you clients which have been bringing money which is disproportionate to their size.

Factors considered are

Financial transaction which means receipts or payments done by a client across all segments.

➤ **Group parameter 7: (Money Flow Out)**

This criteria will highlight to you clients which have been taking out money which is disproportionate to their size.

Factors considered are: -Financial transaction which means receipts or payments done by a client across all segments.

Exchange given Broking alerts: -

Transactional Alerts Segment

Significantly increase in client activity	Cash
Sudden trading activity in dormant account	Cash
Clients/Group of Client(s), deal in common scrips	Cash
Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
Client / Group of Client(s) Concentration in a scrip	Cash
Circular Trading	Cash
Pump and Dump	Cash
Wash Sales	Cash &Derivatives
Reversal of Trades	Cash & Derivatives
FrontRunning	Cash
Concentrated position in the Open Interest / High Turnover	Cash & Derivatives
Order book spoofing i.e., large orders away from market -	Cash

DP Alerts

- 1) fiu1 :- Details of debit and credit transactions due to Off-market or Inter-depository transfers, involving 'x' shares or more, or having value of Rs. 'y' and above, whichever is smaller, in an account, in an ISIN, in a single transaction or series of transactions executed during the fortnight
- 2) fiu2 :- Details of debit and credit transactions due to demat, remat and pledge involving 'x' shares or more in an account, in an ISIN, in a single transaction or series of transaction executed during the fortnight.
- 3) fiu3 :- Details of debit and credit transactions involving 'x' shares or more or having value of Rs. 'y' and above, whichever is smaller in an account, in an ISIN, which exceed 'n' times the average size of the transaction calculated for the previous months' truncations.
- 4) fiu4 :-Details of Off-market transaction (within CDSL or Inter-depository) where there are more than 'x' transactions in an account, for the past fortnight.

5)fiu5 :- Any debit transaction in a dormant account for more than 'x' shares or Rs. 'y' 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.

6)Off_Market_Multiple_Counterparty :- FIU transactions involving multiple counterparties

7) Off_Market_Multiple_Clients :- FIU transactions involving one counterparty with multiple clients

The Management / Principal Officer will be required to generate the suspicious transaction report on monthly / quarterly / daily business and save them, then one after the other carefully understand each transaction and then decide to report or not the same.

Alert Management at Senior Level

Once the alert is raised it will be jointly looked at by the principal officer and various other team members. Further information will be sought and quick action / decision will be tried to arrive at.

Once the case is decided to be reported, within 7 days STR will be filed with FIU, without tipping off to the client of any kind.

Procedure for freezing of funds, financial assets or economic resources or related services:

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated August 27, 2009 detailing the procedure for the implementation of Section 51A of the UAPA.

Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. The obligations to be followed by intermediaries to ensure the effective and expeditious implementation of said

Order has been issued vide SEBI Circular ref. no: ISD/AML/CIR-2/2009 dated October 23, 2009, which needs to be complied with scrupulously.

Recording / Recordkeeping of suspicious maintain

The records of suspicious transaction based on the above criteria and also the same may be saved, against each transaction the reason which is why the transaction is not reported. Also further if the transaction is reported then the same is done in the required format and also save them in the suspicious transactions format, for a period of Eight years from the date of the transaction between the client and the intermediary.

We maintain and preserve the record of documents evidencing the identity of clients and beneficial owners (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of Eight years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

Policy for Recruitment of personnel

The HR Department is instructed to cross check all the references and should take adequate safeguards to establish the authenticity and genuineness of the persons before recruiting. The department should obtain the following documents:

- Photographs
- Proof of address
- Identity proof
- Proof of Educational Qualification
- References
- Retention of records

Records pertaining to active clients and staff details collected for recruitment shall be kept safely.

Employee Training and Investor Education

An effort would be made to make the employees aware of the PMLA Procedures and other aspects of anti-money laundering during the staff meeting which is generally held once or twice in a month. Copies are also being handed over to the employees physically as and when reviewed or at the time of joining for the new employees.

Trading & Clearing Member : **BSE (0727)**
Trading Member: : **NSE Cash & F&O (09763)**

Depository Participant: : **CDSL (12012100)**

This policy may be amended from time to time and all the staff members shall comply with the same.

Reviewed By : Lalit Mundra

Title : Head of Compliance

Date of Last Review : 31st March 2023

Date of Previous Review	Old Version of the Policy (If Any changes made during the review):
31 st March 2023	Yes