Anti Money Laundering on-ESB

Extracts from policy on anti money laundering on EVERMORE STOCK BROKERS PVT. LTD Broking Company for creation of client awareness.

Background

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 th notification No.ISD/CIR/RR/AML/1/06 dated 18 January 2006 and vide letter March 2006 had issued the obligations of the intermediaries th No.ISD/CIR/RR/AML/2/06 dated 20 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

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 through legitimate sources/origins.

Money Laundering may be defined as cleansing of dirty money obtained from legitimate or illegitimate activities including drug trafficking, terrorism, organized crime, fraud and many other crimes with the objective of hiding its source and rendering it in legally usable form. It is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. The process of money laundering involves creating a web of financial transactions so as to hide the origin of and true nature of these funds

This is done in three phases - Placement Phase, Layering Phase & Integration Phase

1. **Placement** - This is where the criminal proceeds are first-injected into the system. It is also the stage where those who are educated, briefed and alert to the process of money laundering, have the best chance of detecting what is happening and are thus best able to thwart and disrupt the process at the outset.

At this stage, very often larger amounts of money are divided and distributed into smaller amounts to avoid suspicion and then paid into a series of bank accounts, arose to purchase securities, or life policies or other assets, sometimes many kinds of

assets, all to achieve the prime purpose of being able to inject the tainted money or value into the legitimate mainstream financial/business system.

Eg: A criminal having huge crime proceeds in form of cash, can deposit this cash in bank accounts maintained with difference banks, in the name of his relatives, friends and associates, in small amounts.

2. Layering - After the injection has taken place and the tainted money or value has entered and become mixed up in the main mass of money or value in the financial system, it is spun around different accounts, different names, different ownerships, plus different instruments and investments.

All these movements are designed to disguise the origins of the money or value and thus confuse those who might be attempting to trace the money or value back to the root, criminal source. Facilitated by the birth of electronic funds transfer technology the fast movement of funds through multiple jurisdictions often with different laws, creates major problems for investigators of identification, access and ultimately achieving successful prosecutions.

3. Integration - Placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds.

Integration means the reinvestment of those funds in an apparently legitimate business so that no suspicion of its origin remains and to give the appearance of legitimizing the proceeds.

KNOW YOUR CLIENT

"Know Your Customer " (KYC) is the guiding principle behind the Anti-Money Laundering (AML) measures. It incorporates the " Know Your Customer " Standards & " Anti Money Laundering " Measures, hereinafter to be referred as " KYC Standards " and " AML Measures ". The objective of is to " have in place adequate policies, practices and procedures that promote high ethical and professional standards and prevent the Company from being used, intentionally or unintentionally, by criminal elements ". KYC Standards and AML Measures would enable the Company to know/ understand its customers, the beneficial owners in case of non-individual entities, the principals behind customers who are acting as agents and their financial dealings better which in turn will help the Company to manage its risks prudently.

Policy of Evermore Stock Brokers Private Limited. for Prevention of Money Laundering

1. The purpose of this policy is to set out the prevention of money laundering commitments and obligations for Evermore Stock Brokers Private Limited. (hereinafter referred to as 'Company')
2. This policy is based on the provision of the "Prevention of Money Laundering Act, 2002 and circular issued by SEBI and exchanges thereof".
3. This internal policy sets out and establishes governing principles, broad

guidelines and standards to be adopted by the Companies in order to protect the Companies from being used by any person to launder money.

4. Policy objectives

To protect the Company from being used for money Laundering.

To follow thorough "Know Your Customer" (KYC) policies and procedures in the dayto-day business. To take appropriate action, once suspicious activities is detected, and make report to designated authorities in accordance with applicable law / laid down procedures.

To comply with applicable laws as well as norms adopted internationally with reference to Money Laundering.

Implementation of this Policy

Evermore Stock Brokers Private Limited. is having the Principal Officer who will be responsible for compliance of the provisions of the PMLA and AML Guidelines and act as a central reference point and

play an active role in identification & assessment of potentially suspicious transactions Ensure that Evermore Stock Brokers Private Limited. discharges its legal obligation to report suspicious transactions to the concerned authorities

The main aspect of this policy about to 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. 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

The Customer Due Diligence Process includes three specific parameters:

Customer Acceptance Policy (CAP)
Customer Identification Procedures (CIP)
Suspicious Transactions identification & reporting

Customer Acceptance Policy

The following Customer Acceptance Policy indicating the criteria for acceptance of customers shall be followed in the Company. The Company shall accept customer strictly in accordance with the said policy:

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. As far as possible, ensure that the new client is introduced by an existing client.

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 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, HIs, 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 NRIs clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or NRIs 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.

Customer Identification Procedure

a) Customer identification means identifying the person and verifying his/her identity by using reliable, independent source documents, data or information. The branches need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of banking relationship. Being satisfied means that the branch is able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance of the extant guidelines in place. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate, etc). For customers that are natural persons, the branches shall obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal

persons or entities, the branches shall (i) verify the legal status of the legal person/entity through proper and relevant documents (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person.

1) 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.

2) 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.

3) 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.

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:

1. Copy of the Registration/Incorporation Certificate
2. Copy of the Memorandum & Articles of the Association
3. Copy of the PAN card and the Director Index No. (DIN)
4. Copy of the latest audited Annual Statements of the corporate client
5. Latest Net worth Certificate Latest Income Tax return filed.
6. Board Resolution for appointment of the Authorized Person who will operate the account.
7. Proof of address and identity of Authorized Person

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

1. Registration Certificate
2. Partnership Deed
3. PAN card of partners
4. Authorization letter for the person authorized to open and operate the account
5. Proof of identity and address of the authorized person.
6. Annual statement/returns of the partnership firm

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

1. Registration Certificate
2. Trust Deed
3. PAN card
4. Authorization letter for the entity authorized to act on their behalf
5. Proof of identity and address of the authorized person.
6. Officially valid documents like PAN card, voters ID, passport, etc of person(s) authorized to transact on behalf of the Trust

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

1. Resolution of the managing body of such association or body of individuals
2. PoA in favour of person authorized to transact
3. Officially valid documents like PAN card, voters ID, passport, etc of the person(s) authorized to transact
4. Any document required by to establish the legal existence of such an association or body of individuals. In case of an NRI account - Repatriable/non-repatriable, the following documents are required:

Copy of the PIS permission issued by the bank

1. Copy of the passport
2. Copy of PAN card
3. Proof of overseas address and Indian address
4. Copy of the bank statement
5. Copy of the demat statement
6. If the account is handled through a mandate holder, copy of the valid PoA/mandate

Suspicious Transactions identification & reporting

1) Risk Profiling of the Client

1.1) 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.

1.2) In order to achieve this objective, all clients of the Company should be classified in the following category :

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

1.2.1. Category A clients are those pose low or nil risk. They are good corporates/HNIs who have a respectable social and financial standing. These are the clients who make payment on time and take delivery of shares.

1.2.2. Category B Customers that are likely to pose a higher than average risk to the Company may be categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc; such as:

1.2.3.Category C The branches may apply enhanced due diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers, especially those for whom the sources of funds are not clear. The following clients can be considered as Clients of Special Category (CSC) the examples of customers requiring higher due diligence may include:-

a)Nonresident Customers,
b)High Net worth individuals
c)Trusts, charities, NGOs and organizations receiving donations,
d)Companies having close family shareholding or beneficial ownership
e) Firms with 'sleeping partners'
f) Politically Exposed Persons (PEPs) of foreign origin
g)Non-face to face customers, and
h)Those with dubious reputation as per public information available, etc.

1.3. We have to be careful while monitoring the transactions of B and C category clients.
1.4. Apart from this we need to exercise extra caution while monitoring the transactions of NRI/NRE/PIO and foreign clients, especially when the payment is being made in foreign currency.
1.5. Any change in the risk profile of the client/mandate holder, has to be ascertained by the concerned

2. 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. 2.1. 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
• Account used for circular trading

Nature Of Transactions

• Unusual or unjustified complexity .
• No economic rationale or bonafide 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 client's 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

Implementation of the above requirements for our activities

(i) Retail Broking We are following KYC norms before enlisting clients. We are also ensuring that all trades are settled through the banking channels and that all shares are electronically transferred to the beneficial owner through settlement systems of the exchanges. However, in order to ensure monitoring of large transactions, a report on all the Clients whose trade turnovers in Cash Market Segment are above Rs.10 lakh per month are reported on monthly basis by Compliance Department to the Principal Officer of the Company. The Compliance department would examine the patterns to determine whether there is a prima facie evidence of money laundering activity and ask concerned departments to call for any information that may be deemed necessary. The back office would provide the data to the Compliance department on monthly basis by 1st of the following month. The Compliance Department of the

Company will prepare the report on the same and submit to the Principal Officer of the Company under PMLA, 2002

(ii) Depository we are registered with CDSL as depository participants. Depository activity involves transfer of shares and shares have monetary value, As such, depository activity will be brought within the purview of the PMLA Policy. We will follow KYC norms for opening accounts with our depository. We will ensure that all trades are settled through the banking channels and that all shares will electronically transferred to the beneficial owner through settlement systems of the exchanges. In certain cases, the shares will be transferred from one account to another by way of Physical Delivery Instruction Slips. However, in order to monitor transactions in dormant accounts, alerts would be generated and immediately reported to the Risk Management and the Compliance

Department Designated Principal Officer

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

Corporate Office

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