
**EXTRACTS FROM POLICY
ON
ANTI MONEY-LAUNDERING POLICY
FOR
CREATION OF CLIENT AWARENESS**

CAPITAL FOCUS

Prepared by: Veeravel

veeravel@capitalfocus.in

Document Information

| ANTI MONEY-LAUNDERING POLICY | |
|-------------------------------------|------------------------------|
| Prepared by | Veeravel |
| Title | ANTI MONEY-LAUNDERING POLICY |
| Reviewed by | Dileep Prabakar |

Table of Contents

| | | |
|----------|--|-----------|
| 1 | Preface | 5 |
| 2 | Money Laundering (Description) | 5 |
| 2.1 | Placement Stage | 6 |
| 2.2 | Layering Stage: | 6 |
| 2.3 | Integration stage:..... | 6 |
| 3 | Prevention of Money Laundering Act, 2002 | 6 |
| 4 | Financial Intelligence Unit (FIU) –INDIA | 7 |
| 5 | Implementation of this Policy | 7 |
| 6 | Customer due Diligence Process (Commodity Broking Market) | 7 |
| 6.1 | Customer Acceptance Policy | 8 |
| 6.1.1 | Each client should be met in person:..... | 8 |
| 6.1.2 | Accepts clients on whom we are able to apply appropriate KYC procedures: | 8 |
| 6.1.3 | Do not accept clients with identity matching persons known to have criminal background: | 8 |
| 6.1.4 | Be careful while accepting Clients of Special category: | 9 |
| 6.1.5 | Do not accept client registration forms which are suspected to be fictitious:..... | 9 |
| 6.1.6 | Do not compromise on submission of:..... | 9 |
| 6.1.6.1 | Mandatory information/ documents:..... | 9 |
| 6.1.6.2 | Financial Details:..... | 9 |
| 6.2 | Customer (Client) Identification Procedure:..... | 10 |
| 6.2.1 | PAN Card: | 10 |
| 6.2.2 | IDENTITY Proof:..... | 10 |
| 6.2.3 | ADDRESS Proof: | 10 |
| 6.2.4 | Documents to be obtained as part of customer identification procedure for new clients:..... | 10 |
| 6.2.4.1 | In case of individuals, one copy of the following documents have to be obtained: | 10 |
| 6.2.4.2 | In case of Corporates, one certified copy of the following documents must be obtained: | 11 |
| 6.2.4.3 | In case of partnership firm one certified copy of the following must be obtained:..... | 11 |
| 6.2.4.4 | In case of a Trust, one certified copy of the following must be obtained:..... | 11 |
| 6.2.5 | DOCUMENTS TO BE OBTAINED AS PART OF CUSTOMER IDENTIFICATION PROCEDURE FOR ALL EXISTING CLIENTS:..... | 12 |
| 7 | Risk Profile of the Customers | 12 |
| 7.1 | Category A:..... | 13 |
| 7.2 | Category B:..... | 13 |
| 7.3 | Category C:..... | 13 |
| 8 | Reporting of Transactions | 13 |
| 8.1 | Cash Transaction Reports:..... | 13 |
| 8.2 | Suspicious Transaction Reports: | 14 |

9 Suspicious Transaction..... 15
9.1 Reasons for Suspicion: 15
9.1.1 Identity of client:..... 15
9.1.2 Suspicious Background: 15
9.1.3 Multiple Accounts:..... 15
9.1.4 Activity in Accounts: 16
9.1.5 Nature of Transactions: 16
9.1.6 Value of Transactions:..... 16
9.1.7 What to Report:..... 16
10 Designated Principal Officer:..... 17



1 Preface

The Forward Markets Commission (FMC) vide circular no: 07.01.2008-MKT-II dated 30.10.2009 has, in order to protect the commodity derivatives market from the menace of money laundering, felt it necessary to bring the members of commodity exchanges within the reporting ambit of Prevention of Money Laundering Act 2002 (PMLA). The members of the exchanges have, therefore, to follow and adopt the Prevention of Money Laundering Act 2002 and Prevention of Money laundering (Maintenance of records of the nature and value of transaction, the procedure and manner of maintaining and time for furnishing information and verification and maintenance of the identity of clients of the Banking companies, Financial Institutions and Intermediaries) Rules, 2005 and all other rules, regulations, notifications issued by the GOI from time to time.

Money Laundering is a serious threat to financial system of all countries and it leads to destruction of the Country's sovereignty and character. Financial sector institutions, Banks and Intermediaries remain the primary gateway to the financial system of any country. Once illegal proceeds get into a depository institution, they can be moved instantly by wire or disguised through comingling with legitimate funds. With the advent of Internet and remote banking, depository institutions face increased challenges identifying customers and their customer's sources of funds.

2 Money Laundering (Description)

Money Laundering is the process by which criminals attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities, thereby avoiding prosecution, conviction and confiscation of the criminal funds. The term "Money Laundering" is also used when the funds are used for terrorist financing, though the origin of the funds may be legitimate.

This process is often achieved by converting the original illegally obtained proceeds from their original form, usually cash, into other forms such as deposits or securities and by transferring them from one financial institution to another using the account of apparently different persons or businesses.

The process of ML, regardless of its degree of complexity, is accomplished in three stages are:

- Placement stage
- Layering stage
- Integration stage

2.1 Placement Stage

The first stage is successfully disposing of the physical cash received through illegal activity. The crooks accomplish this by placing this into traditional or non-traditional financial institutions. This involves the physical movement of the cash proceeds. For most criminal transactions, cash is the most common medium of exchange and criminals who accumulate large volumes of cash are the most vulnerable to detection and seizure. As a result, money launderers will attempt, through placement, to channel the funds into financial institutions.

2.2 Layering Stage:

After the funds enter the company, the money launderer will further separate the illicit proceeds from their illegal source through a process of layering. Layering occurs by conducting multiple, complex, financial transactions that make it difficult to link the money to an illegal activity. In this stage he concentrates on separation of proceeds from criminal activity through the use of various layers of monetary transactions. These layers are aimed at wiping audit trails, disguise the origin and maintain anonymity for people behind the transactions.

2.3 Integration stage:

The final link in money laundering process is sometimes called the integration stage. This occurs when the laundered or cleaned up money is legitimately brought back into financial systems operated by end user and when it is safe and insulated from enquiry by any agency with a legitimate reason for querying the existence of money. Integration moves the funds back into the economy with the appearance of being normal business earnings. It would become extremely difficult at this point to distinguish between illicit funds and legitimate funds.

3 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 1, 2005.

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

4 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.

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 crime.

5 Implementation of this Policy

Mr. Vijay Shailendarr, Commodity Broking 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 CAPITAL FOCUS discharges its legal obligation to report suspicious transactions to the concerned authorities.

6 Customer due Diligence Process (Commodity Broking Market)

The main aspect of this policy is the Customer Due Diligence Process which means:

- ✓ Obtaining 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.
- ✓ Verify the customer's identity using reliable, independent source document, data or information.
- ✓ Conduct on-going due diligence and scrutiny of the account/client to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile.

The Customer Due Diligence Process includes four specific parameters:

- Customer Acceptance Policy
- Client Identification Procedure
- Monitoring of transactions
- Tracking and reporting Suspicious Transactions

6.1 Customer Acceptance Policy

6.1.1 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 filed 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. In case client is not introduced by an existing client, then the employee who visits the client/ meets the client in person shall verify and sign as introducer. The employee meeting the client does in-person verification and sign as introducer in the form by specifying the name, employee code, designation, branch and department serving.

6.1.2 Accepts clients on whom we are able to apply appropriate KYC procedures:

- ✓ All supporting documents and complete information as specified by Forward Markets Commission (FMC) and Commodity Exchanges should be obtained from the client and the same shall be verified against the original documents without any exceptions.
- ✓ Ensure that the “Know Your Client” guidelines are followed without any exception and that the initial forms taken by the clients are filled in completely.

6.1.3 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.

6.1.4 Be careful while accepting Clients of Special category:

We should be careful while accepting and properly scrutinize the records / documents pertaining to clients belonging to below mentioned categories:

- ✓ Client's of special category like 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.

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).

6.1.5 Do not accept client registration forms which are suspected to be fictitious:

Ensure that no account is being opened in a fictitious name or on an anonymous basis.

6.1.6 Do not compromise on submission of:

6.1.6.1 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 and record to reject the client's request towards this reluctance.

6.1.6.2 Financial Details:

Client's account should be opened only on receipt of financial details along with supporting documents, like ITR, Copy of Annual Accounts, Copy of Form 16 in case of salaried employees, Salary Slip, Net worth certificate signed by CA, Bank account statement for last 6 months, Self declaration along with relevant supporting documents.

6.2 Customer (Client) Identification Procedure:

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 by which is fictitious/anonymous in nature.

Documents which can be relied upon:

6.2.1 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.

6.2.2 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.

6.2.3 ADDRESS Proof:

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

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

6.2.4.1 In case of individuals, one copy of the following documents has 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.

6.2.4.2 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.

6.2.4.3 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

6.2.4.4 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, voter's ID, passport, etc. of person(s) authorized to transact on behalf of the Trust.

6.2.5 DOCUMENTS TO BE OBTAINED AS PART OF CUSTOMER IDENTIFICATION PROCEDURE FOR ALL EXISTING CLIENTS:

On an on-going basis, the branches should ensure that the details given in the KYC, by the client, match with the current details of the client. If required, we can seek additional documents/information from the client to verify the financial/general status of the client.

In cases where:

- There is any material negative change in the financial details of the client from what is given in the KYC
- If the client is not contactable/traceable or contracts notes/ communications sent are received back undelivered
- In case the client is prohibited by any regulatory authority
- The client refuses to provide additional information/document asked for
- There is a material change in the mandate holder profile/details

Branches should immediately bring the same to the notice of the Zonal Business Head. The Zonal Business Head will, in turn, discuss the same with the Principal Officer to decide on the necessary course of action, including reporting to FIU, New Delhi.

7 Risk Profile of the Customers

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 payments, etc.

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

7.1 Category A:

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

7.2 Category B:

Clients are those who are intra-day clients or speculative clients. These are the clients who maintain running account with KCTL.

7.3 Category C:

Clients are those who have defaulted in the past, have suspicious background, do not have any financial status, etc.

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

Reporting of Transactions Reporting of Transaction to Financial Intelligence Unit-India:

In terms of the PMLA rules, Intermediaries are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit- India (FIU-IND).

8.1 Cash Transaction Reports:

The Prevention of Money-laundering Act, 2002, and rule there under require every intermediary, to furnish to FIU-IND information relating to:

- 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;

The cash transaction report (CTR) (wherever applicable) for each month should be submitted to FIU-IND by 15th of the succeeding month. All are requested not to accept cash from the clients whether against obligations or as margin for purchase of commodities or otherwise. All payments shall be received from the clients strictly by account payee crossed cheques drawn in favour of CAPITAL FOCUS. In case 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 verify the same. All cash transactions are required to be reported on monthly basis to the Principal Officer by each branch/Sub-broker by 7th of the following month.

8.2 Suspicious Transaction Reports:

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.

The intermediary shall furnish to FIU-IND information of all suspicious transactions whether or not made in cash.

The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion. The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND. Utmost confidentiality should be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address.

9 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

Gives rise to a reasonable ground of suspicion that it may involve financing of the— activities relating to terrorism.

9.1 Reasons for Suspicion:

9.1.1 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 welcome kit undelivered at the address given by the client.

9.1.2 Suspicious Background:

- ✓ Suspicious background or links with criminals

9.1.3 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.

9.1.4 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

9.1.5 Nature of Transactions:

- ✓ Unusual or unjustified complexity
- ✓ No economic rationale or bona fide 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

9.1.6 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

9.1.7 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.

10 Designated Principal Officer:

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

Mr. Vijay Shailendarr

Managing Director

CAPITAL FOCUS,

No: 1, Second Floor,

Ambalathadayar Madam Street,

Puducherry - 605 001.

Mail: vijay.shailendarr@capitalfocus.in