

**POLICY FRAMEWORK AS REQUIRED UNDER PREVENTION OF MONEY
LAUNDERING ACT, 2002**

SHILPA STOCK BROKER PVT.LTD.

DP ID: 25700

Back Ground

The Prevention of Money Laundering Act, 2002 has come into effect from 1st July 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance, Government of India. As per the provisions of the Act, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, Depository Participant, u`nderwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.

Company Policy

It is the policy of the company to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.

Principal Officer Designation and Duties

The company has designated Rakesh Nahar as the Principal Officer and Designated Director for its Anti-Money Laundering Program, with full responsibility for the company AML program is qualified by experience, knowledge and training. The duties of the Principal Officer will include monitoring the company compliance with AML obligations and overseeing communication and training for employees. The Principal Officer will also ensure that proper AML records are kept. When warranted, the Principal Officer will ensure filing of necessary reports with the Financial Intelligence Unit (FIU – IND)

The company has provided the FIU with contact information of the Principal Officer, including name, title, mailing address, e-mail address, telephone number and facsimile number. The company will promptly notify FIU of any change to this information.

Software for PMLA

Our Management has decided to obtain TrackWizz AML Solution as PMLA software for the generation of alerts as well as for screening of KYC.

Customer Due Diligence :-

The customer due diligence (“CDD”) measures would cover the following:

(a) Obtain sufficient information in order to identify persons who beneficially own or control the demat account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party should be identified using client identification and verification procedures.

The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

(b) Conduct an ongoing due diligence and scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the DP's knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer's source of funds / securities.

(c) The periodicity of updating of documents taken during the client due diligence (CDD) process will be every year

Reliance on third party for carrying out Client Due Diligence (CDD):

We shall not rely on any third party for carrying out the customer due diligence ("CDD"). We are solely conducting and are responsible for carrying out the CDD.

Policy for acceptance of clients:

The organization needs to follow the following policy and procedure in order to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. By establishing these policies and procedures, the organization will be in a better position to apply customer due diligence on a risk sensitive basis.

Accordingly, the following safeguards are required to be followed while accepting the clients.

a) No account is opened in a fictitious / benami name or on an anonymous basis.

b) Know Your Client form to be filled completely. Special attention is to be given to items which are marked **mandatory**.

c) Documents submitted for our records should be diligently verified with the originals. More importantly PAN card, proof of address, proof of identity needs to be verified with the originals. Further, details of PAN card should be compared with the income tax web site.

e) The client name and the names of directors and shareholders to be verified at various databases like CIBIL database, SEBI Prosecution database, NSE's database of regulatory actions against various entities as may be available from time to time.

f) No client account to be opened where the important / mandatory details are not furnished by the client even after repeated follow ups. Further client account not to be opened in cases where information provided to us is suspected to be non genuine, there is

a perceived non-cooperation of the client in providing full and complete information specially in respect of mandatory and / or important information.

g) Documentation requirement and other information to be collected in respect of different classes of clients would depend on the perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.

j) To ensure that the clients identity does not match 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 agency worldwide .

k) Special attention to be given to clients who tend to open multiple accounts (say 20 or more) in various combinations of its first name, surname and middle name.

l) To check that the list of individuals and entities put up on the United Nations website http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml and <http://www.un.org/sc/committees/1988/list.shtml> which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc as approved by Security Council Committee established pursuant to various United Nations Security Council Resolutions (UNSCRs) are included in the SEBI debarred list and the clients with similar details would be reviewed through IPV, address and background verification.

m) The kind of documents and care to be taken in case of various categories of clients should be as mentioned in the table below.

Sr No	Category of client	Annexure No
1.	Individual	I
2.	HUF	II
3.	Corporates	III
4.	NRI & Foreign Nationals	IV
5.	Clearing Member	V
6.	FII	VI
7.	OCB	VII
8.	Societies	VIII
9.	Trust	IX
10.	Banks	X
11	Association of Persons	XI

Risk-based Approach:- The customer due diligence measures should be on a risk sensitive basis. Accordingly the customer due diligence process should be different for a high risk category client as compared to those made applicable for clients appearing in low risk category. High risk clients may cover the following:-

- a. Non resident clients
- b. High net worth clients,

- c. Trust, Charities, NGOs and organizations receiving donations
- d. Companies having close family shareholdings or beneficial ownership
- e. Politically exposed persons (PEP) of foreign origin
- f. 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)
- 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.
- h. Non face to face clients
- i. Clients with dubious reputation as per public information available etc.

The above list is only illustrative and shall be amended as and when deemed fit.

Risk Profiling of customer

- We have adopted a risk-based approach in implementing its AML framework as spelt out in the AML Policy of the Broker. This approach includes assessment of various risks associated with different types of customer.
- For the purpose customers are classified under three broad categories
 1. High Risk customers
 2. Medium Risk customers
 3. Low Risk customers
- Customers who are being referred by us or by our management or our by Authorised Person or by other business associates shall be classified under Low Risk category.
- Rest all customers will be classified under Medium or High Risk category based on facts of the cases. Where a customer is classified under Medium or High Risk category, said accounts should be kept under supervision of Principal Officer.

After Client account opened client risk classification is review as per following

- **Low Risk:**

- ❖ The clients having average daily transaction in a month for less than Rs 10 lakhs (reviewed on the basis of trades executed in immediate past 3 months).
- ❖ Good corporate/HNI clients who have a respectable social and financial standing.
- ❖ The clients who make payment on time and take delivery of shares.

- **Medium Risk:**
 - ❖ The clients having average daily transaction in a month in the range of Rs 10 lakhs to Rs 1 crore (reviewed on the basis of trades executed in immediate past 3 months)
 - ❖ Intra-day clients or speculative clients.
- **High Risk:**
 - ❖ The clients having average daily transaction in a month for more than Rs 1 crore (reviewed on the basis of trades executed in immediate past 3 months).
 - ❖ Frequency of trade.
 - ❖ Clients who have defaulted in the past, have suspicious background or do not have any financial status, etc.
- Further to above it is also necessary to cross verify the details of prospective customers with the databases of UN or other similar entity. We shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to SEBI and FIU-IND.
- An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) needs to be accessed in the United Nations website at <http://www.un.org/sc/committees/1267/consolist.shtml> and <http://www.un.org/sc/committees/1988/list.shtml> .
- In addition to above it is also necessary to identify and classify customers under 'Clients of Special Category' (CSC) an illustrative list of 'Clients of Special Category' (CSC) shall be read as under:
 1. Non resident clients,
 2. Trust, Charities, NGOs and organizations receiving donations,
 3. Politically exposed persons (PEP). Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc.
 4. Companies offering foreign exchange offerings,
 5. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, 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,
 6. Non face to face clients,
 7. Clients with dubious reputation as per public information available etc.

The above mentioned list is only illustrative and we should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

The risk profiling carried out through our software is detailed in **Exhibit – A**.

Precautions related to Delivery Instruction slips:- As a DP we need to depute an authorized official who would verify the following details from the instruction slips :

- Whether the instruction slip received from the BO is from the range of instruction slips issued to the same BO.
- Whether all the account holders / authorized signatories / duly constituted POA, if any, have signed the instruction slip.
- Whether the signature(s) of the BO(s) on the instruction slip tallies with the signature(s) of the BO(s) recorded in the CDSL system.
- Instruction slip having transactions with value more than 5 lakhs have to be additionally verified by a senior official of the DP.
- In case the signature(s) on the instruction slip do not match with the CDSL records, then the DP shall reject the instruction slip.
- Utmost care shall be exercised while storing Instruction Slips for future reference.

Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR)

There are 3 categories of alerts which will be generated and scrutinized by us. The categories are as under:-

1. Broking Alerts generated by our AML Software
2. Exchange given Broking Alerts
3. Alerts provided by CDSL on fortnightly basis.

The details of alerts generation is provided in **Exhibit – B**.

Using our analytical skills and by exercising due precaution we need to monitor and report about the suspicious transactions:-

- ❖ Clients whose identity verification seems difficult or clients appears not to cooperate
- ❖ Clients in high-risk jurisdictions or clients introduced by other clients based in high risk jurisdictions;
- ❖ Substantial increases in business without apparent cause ;
- ❖ Further, it should be ensured that there is no tipping off to the client at any level

Responsibilities of the Principal Officer:

1. 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.

2. The Principal Officer will be responsible for timely submission of Cash Transaction Report (CTR) and Suspicious Transaction Report (STR) to FIU.

Broad categories of reason for suspicion and examples of suspicious transactions are indicated as under:

(A) Identity of Client

- False identification documents
- Identification documents which could not be verified within reasonable time
- Doubt over the real beneficiary of the account

(B) Suspicious Background

- Suspicious background or links with known criminals

(C) Multiple Accounts

- Large number of accounts having a common account holder, introducer or authorized signatory with no rationale
- Unexplained transfers between multiple accounts with no rationale

(D) Activity in Accounts

- Unusual activity compared to past transactions
- Use of different accounts by client alternatively
- Pay in for a client coming from different accounts
- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared business

Steps must be taken to ensure that the securities bought under suspicious transactions are not returned to the client

Retention of Records :- All necessary records on transactions, both domestic and international, should be maintained for the minimum period as required under the relevant Act (PMLA, 2002 as well SEBI Act, 1992) and other legislations, Regulations or exchange bye-laws or circulars.

- Records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, PAN Card copy, address proof copy, driving licenses or similar documents), account files and business correspondence should also be kept for the period as required statutorily.
- If any document is required for any investigative purpose, then the document should be retained till the conclusion of the audit / investigation.

Maintenance of records

The Principal Officer will be responsible for the maintenance for following records

- 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;
- 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."

The records will be updated on daily basis, and in any case not later than 5 working days

Responsibility for AML Records and STR Filing

Principal Officer will be responsible to ensure that AML records are maintained properly and that STRs are filed as required

Records Keeping Information

The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and related documents should be made available to auditors and also to SEBI /Stock Exchanges/FIU-IND/Other relevant Authorities, during audit, inspection or as and when required.

These records are required to be preserved for a period of **Five years** as is required under PMLA 2002.

Hiring policies and training with respect to anti-money laundering To have adequate screening procedures in place to ensure high standards when hiring employees. To identify the key positions within the organization structures having regard to the risk of money laundering and terrorist financing and the size of its business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

Procedure for freezing of funds, financial assets, economic resources or related services. The client accounts should be scrutinised regularly for determining nature of transaction taken place. In case any suspicious transaction arisen, the account should be frozen or securities/money should not be delivered to client. The suspicious transactions shall be reported to the FIU as well as the respective exchanges or depository where transactions have taken place.

Training Programs

We will develop ongoing employee training under the leadership of the Principal Officer. Our training will occur on at least on annual basis. It will be based on our company size, its customer base, and its resources.

Our training will include, at a minimum: how to identify red flags and signs of money laundering that arise during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in the company compliance efforts and how to perform them; the company record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

We will develop training in our company, or contract for it. Delivery of the training may include educational circulars, intranet systems, in-person lectures, and explanatory memos.

We will review our operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes.

Investors Education

As the implementation of AML / CFT measures being sensitive subject and requires us to demand and collect certain information from investors which may be of personal in nature or has hitherto never been called for, which information include documents evidencing source of funds / income tax returns / bank records etc. and can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need for us to sensitize the clients about these requirements, as the ones emanating from AML and CFT framework. We shall circulate the PMLA Circulars and other specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT program. The same shall also be emphasized on, in the Investor Awareness Programs conducted by us at frequent intervals of time. The importance of the same is also made known to them at the time of opening the Account.

INDIVIDUALS

The documents to be collected from individuals at the time of registration as a BO are as mentioned below:- The documents are by and large as prescribed by SEBI from time to time:

(A) Proof of Identity:

- I. Passport
- II. Voter ID Card
- III. Driving license
- IV. PAN card with photograph
- V. MAPIN card
- VI. Identity card/document with applicant's photo, issued by any of the following -
 - a) Central/State Government and its Departments,
 - b) Statutory/Regulatory Authorities,
 - c) Public Sector Undertakings,
 - d) Scheduled Commercial Banks,
 - e) Public Financial Institutions,
 - f) Colleges affiliated to Universities,
 - g) Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council, etc., to their Members,
 - h) Credit cards/Debit cards issued by Banks with photographs.

(B) Proof of Address

- I. Ration card
- II. Passport
- III. Voter ID Card
- IV. Driving license
- V. Bank passbook
- VI. Verified copies of
 - a) Electricity bills (not more than two months old),
 - b) Residence Telephone bills (not more than two months old),
 - c) Leave and License Agreement / Agreement for sale.

- VII. Self-declaration by High Court & Supreme Court judges, giving the address in respect of their own accounts.
- VIII. Identity card/document with address, issued by:
- a) Central/State Government and its Departments,
 - b) Statutory/Regulatory Authorities,
 - c) Public Sector Undertakings,
 - d) Scheduled Commercial Banks,
 - e) Public Financial Institutions,
 - f) Colleges affiliated to universities,
 - g) Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council, etc., to their Members

Correspondence address: This is applicable to all types of investors. If the correspondence address of the BO is not the same as permanent address, then we need to obtain proof of permanent address as well as correspondence address and both must be entered in the system.

Further, if BOs wish to receive their correspondence at the address of some other entity - such as POA holder for NRI, for IPO / Margin financing, etc., the abovementioned proof of address documents in the name of such other entities may be accepted as proof of correspondence address of the BO, provided the same is mentioned in the account opening form. In all such cases, we need to ensure that proof of permanent address for the BO has been obtained and the same has been entered in the system.

Minor :- The minor could be either the sole, first holder and/or second holder and/or third holder. Documents to be obtained in case of a minor opening a demat account are as follows :-

- Birth certificate of minor.
- Proof of address and identity documents of the Guardian, as specified above.
- One passport size photograph of minor and one of guardian with guardian's signature across the photograph. Guardian should sign across the photograph of the minor.
- PAN Card for minor as well as guardian should be obtained.

It may be noted that according to the Hindu Guardians and Wards Act, natural parent i.e. Father, and in his absence, Mother, only can be the guardians. In any other event, the guardian has to be appointed by the court.

Once the minor attains the age of a major, following process is to be followed:

- The account holder should submit proof of identity and proof of address as per CDSL requirements.
- The account holder should submit a photograph with signature across the photograph and the account opening form. Photograph must be pasted on the form.
- The account holder should submit a specimen signature.
- The guardian's signature should be deleted and account holder's signature should be scanned.

The above procedure can be followed only if the word 'minor' is not present in the "Account Holder's name" when the account was opened. If "minor" word is present, then the existing account has to be closed and a new account should be opened.

HUF (Hindu Undivided Family)

All the documents, as applicable in case of an individual investor, will be applicable in case of HUF (for the Karta). However the following HUF specific details are also to be collected.

- PAN Card and Bank Pass Book indicating the existence of HUF entity.

Further a declaration by Karta giving details of the family members of the HUF with their names, sex (male/ female), date of birth and relationship with the Karta has to be obtained. It may be noted that HUF accounts cannot be opened with joint holder(s) and that HUF accounts cannot appoint a nominee and also cannot be a nominee.

It may further be noted that in the Account opening form, the Karta should sign under the HUF stamp and thus the account has to be opened in the name of HUF only and not in the name of Karta.

The name of the BO in the DP database should be as it appears in the PAN card, e.g. Rajiv Sharma (HUF).

Process to be followed in case of death of the Karta. HUF, being a Hindu Undivided Family, the property of the family is managed by the Karta, i.e. the head of the family, and all the family members are the beneficiaries. Accordingly, HUF does not come to an end in the event of death of the Karta. In such a case, the members of the HUF appoint the new Karta, who will be heading the family.

- On the death of an existing Karta, the new Karta shall submit the new list of members and a no objection from the members for him to act as Karta of the HUF.
- The new Karta will submit to the DP the account modification form and record change in signature of the new Karta to operate the account.

Procedure to be followed in case of partition of HUF: In case of a partial partition of the HUF, if one or two members of the HUF have left, the others can still continue the HUF in the existing name. In case of full partition, the entire HUF is dissolved.

In both the cases above, the Karta can transfer shares to the members who seek partition. If the issue of transfer cannot be amicably settled, the family members can go to court and transfer of shares can then be based on the Court directions.

Annexure III

Corporates

In case of Corporates, certified true copy of Board Resolution, duly certified by Managing Director / Company Secretary, authorizing opening of demat account and specifying the name of persons authorized by the Board to operate the said demat account should be collected. The resolution must specify the manner of operation of the account and authority given to the authorised signatories to open and operate the account.

Further the names of the authorized signatory(ies), designation, photograph and their specimen signatures duly verified by Managing Director/Company Secretary has to be collected .

A certified true copy of Memorandum and Articles of Association of the Corporate BO should be collected.

Annexure IV

Non- Resident Indian (NRI)

In case of a Non-Resident Indian, over and above the documents collected for an individual, the following are also required.

- ✓ Proof of Identity (copy of passport / driving license).
- ✓ Proof of foreign address and Indian address (if any). [In the case of an NRI A/c without repatriation, proof of Indian address has to be given.]
- ✓ Bank account details.
- ✓ Power of Attorney, if any.

Change of status from NRI to Resident and vice versa : It may be noted that it is the responsibility of the NRI to inform the change of status to the DP with whom he / she has opened the demat account. Subsequently, a new demat account in the resident status will have to be opened, securities should be transferred from the NRI demat account to resident account and then only the NRI demat account can be closed.

Further, in case of a Foreign National the over and above the requirements given above a certificate from the Bank or a Passport Copy is required.

Annexure V

Clearing Member (CM)

If the Clearing Member is a corporate body, then the following needs to be collected:-

- Certified true copy of certificate of registration with SEBI, certified by Managing Director/Company Secretary.
- Certified true copy of Board Resolution duly certified by the Managing Director / Company Secretary authorizing opening of demat accounts and specifying the name of person(s) authorized by the Board to operate the said demat account. The resolution must specify the manner of operation of the account and authority given to open and operate the demat account.
- Names of the authorized signatories, designation, and their specimen signatures duly verified by the Managing Director/Company Secretary.
- Memorandum and Articles of Association of the Company.
- One passport-size photograph of each of the authorised signatory(ies) with their signature/s across the photograph.

If the Clearing Member is not a corporate body then the following needs to be ensured:-

- The account has to be opened in the name of individuals.
- Photocopy of Certificate of Registration with SEBI, duly notarized.
- One passport-size photograph of each applicant with signature across the photograph.

Annexure VI

Foreign Institutional Investor (FIIs)

In case a Foreign Institutional Investor, wants to become a BO we need to collect the following:-

- Certified true copy of Certificate of Registration with SEBI, certified by Managing Director/Company Secretary.
- Certified true copy of Board Resolution, duly certified by Managing Director/Company Secretary, authorizing opening of demat account, specifying names of persons authorized by the Board to open the demat account. The resolution must specify the manner of operation of the account and authority given to authorized signatory(ies), to open and operate the demat account.
- Names of the authorized signatory(ies), designation, photograph and their specimen signatures, duly certified by Managing Director/Company Secretary.
- Memorandum and Articles of Association of the Company.

Annexure VII

Overseas Corporate Body (OCBs)

In case of an Overseas Corporate Body, the following details must be collected:-

- Certified true copy of Board Resolution, certified by Managing Director/Company Secretary for persons authorized by the Board to act as authorized signatory(ies).
- Names of the authorized signatory(ies), designation, photographs and their specimen signatures, certified by Managing Director/Company Secretary.
- Certified copy of the Memorandum and Articles of Association of the Company.
- A certified copy of RBI Registration Certificate.

Annexure VIII

Societies:

Registered Society: In case of a registered society the following needs to be adhered to:-

- Copy of Certificate of Registration under the Societies Registration Act, 1860.
- List of Managing Committee members.
- Certified true copy of Committee Resolution for persons authorized by the Committee to act as Authorized Signatory (ies).

- Names of Authorized Signatories, Designation, and their Specimen Signatures.
- Certified true copy, by the Chairman/Secretary, of Society Rules and Bye Laws.
- One passport-size photograph of each authorized signatory with signature across the face of the photograph.

Unregistered Society: In case of unregistered societies the following should be ensured to implement better compliance

- The account should be opened in the names of the members under “Individual” category (maximum three accountholders).
- All the documents, as applicable for account opening under individual category, should be obtained.
- The proof of address and identity documents of the members should be obtained for account opening.

Annexure IX

Trust

Registered Trust (Public Trust): In case of a registered trust, the following should be ensured.

- Account should be opened in the name of the Trust.
- Obtain a certified copy of Certificate of Registration of Trust under the Societies Registration Act/ Public Trust Act, 1860.
- Obtain a certified copy of Trust Deed and Rules.
- List of Members on the Board of Trustees.
- Certified true copy of Board Resolution to open the demat account and specifying the persons authorized by the Board to act as Authorized signatory(ies) to operate the demat account.
- Names of the authorized signatories, designation, and their specimen signatures duly verified by the Managing Trustee.
- One passport-size photograph of each of the authorized signatory(ies) with their signatures across the face of the photograph.

Unregistered Trust (Private Trust): In case of an unregistered trust, the following should be ensured:-

- The Board of Trustees shall specify the names of the trustee/s who shall hold/operate the demat account.
- The account should be opened in the names of the trustees under “Individual” category (maximum three account holders).
- The proof of address and identity documents of the trustees should be obtained for account opening.

Annexure X

Banks

In case of Banks, the following documents need to be collected while registering a BO.

- Letter on the letterhead of the bank, signed by the Chairman/MD authorizing opening of account and authority given to authorized signatories to open and operate the demat account.
- Names of the authorized signatories, designation, photograph and their specimen signatures, certified by Chairman/Managing Director.
- Certified copy of Memorandum and Articles of Association, if any.
- Certified copy of RBI Registration Certificate in case of Scheduled/Co-operative banks.

Annexure XI

Association of Persons (AOP):

In case of an Association of Persons the most important thing to check is the object or purpose of the Association. Over and above the documents to be collected while making an AOP a BO are as follow:-

- Powers of the Managing Committee.
- Resolution to open a demat account in CDSL.
- Names of authorized signatories with the specimen signatures duly authorized by the governing Board Member.
- Copy of the PAN Card in the name of AOP
- Copy of the Bye Laws.

Notes:-

1. If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, our firm will not open the new account.
2. All PAN Cards received will be verified from the Income Tax/ NSDL website before the account is opened
3. The firm will maintain records of all identification information for ten years after the account has been closed

In addition, beneficial ownership will be determined as under:-

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, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

- 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:
 - more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;
 - more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
 - 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.

Where no natural person is identified, the identity of the relevant natural person who holds the position of senior managing official needs to be obtained.

For client which is a trust:

Where the client is a trust, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

For all non-individual accounts mentioned below the detail should be added to the system of the key person.

The following categories are eligible for this

- Corporate Accounts: This could be directors, authorised signatories, share holders etc
- HUF Accounts: The Karta, Co Parceners etc.
- Trust: The trustee details will be captured.
- Partner Ship Firm: The partner details will be captures as key persons.

Association of Persons.

For convenience these are called as key persons, for every Key Person following will have to be entered

First Name

Middle Name

Last Name

Designation: Partner/Director/Karta etc...

Email

Mobile

PAN

Share Holding %

Number of Shares

Address Line 1

Address Line 2

Address Line 3

City

State

Pin

Country

Further system will alert, if the same key people are common in accounts. So if there is a common email ID or mobile numbers between key persons of two separate non individual accounts or same key person is available in more than one account then system will prompt the user to mark these accounts as special category "Close Family Shareholding or Beneficial ownership"

List of Persons Designated for PMLA

Name of Designated Director: Mr. Rakesh Nahar
Contact No: 022 – 4032 4300
Email ID: rakesh@ssbpl.net

Name of Principal Officer: Mr. Rakesh Nahar
Contact No: 022 – 4032 4300
Email ID: rakesh@ssbpl.net

This Policy shall be reviewed and revised if required, on an annual basis.

For **Shilpa Stock Broker Pvt. Ltd.**,

Director

Dated: 20th December 2014

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

Very 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.

Both above stages are detailed as follows;

On boarding Risk

Once the Account opening team has validated client against the customer acceptance policy, special category check, then it is an appropriate time to allot a risk profile to the client.

It will be the responsibility of the Account opening team to understand if the client falls into the categories mentioned below;

1. NRI
2. HNI
3. Trust / Charitable Organizations / NGO (Non Government Organizations)
4. Close Family Share holdings or beneficial ownership
5. Politically Exposed Person
6. Company Offering foreign exchange offerings
7. Client in high risk Country
8. Non Face to face client
9. Client with dubious public reputation

The list of the categories are basically special categories, this list could be reviewed and could have more categories.

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**”.

For clients that do not form under the special category mentioned above we take into account other details like Occupation of the client, age of the client.

Specific occupations of the client will mean that client will be marked as medium risk.

Medium Risk: Business, Agriculture, Student, Professional and Others.

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.

Review of Risk constantly after the On Boarding: The ongoing risk review can trigger the client’s risk to be upgraded based on the following parameters or events.

1. Change of the client relationship from Indian to NRI. The risk would be upgraded to “**High**”
2. If it is later realized that the client is a High Net Worth client. The risk would be upgraded to “**High**”
3. If in future it is known that a client is PEP then apart from seeking permission from the management to continue the relationship, the client should be immediately upgraded to **High** risk
4. If it is later realized or the existing client is registered foreign exchange dealer the client will have to be upgraded to **High** risk.
5. If a client is residing in a country which has been recently declared by the FATF as a high risk jurisdiction or an existing client moves base into a high risk jurisdiction then naturally in both the cases client will be immediately upgraded to “High” risk.
6. If a client registers the authorization or gives a power of attorney to operate his account to somebody else, in that case the account is to be upgraded to “**High**” risk
7. If it is realized by the management that the existing client’s reputation is tainted because of a SEBI debarred or any such announcement then the client will be upgraded to “**High**”
8. Any employee of the organization could alert the principal officer and request based on any news item or an event in the public domain which can lead the risk to be made **High**
9. **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 net worth 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** or even **very 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.

Maintaining Risk History and reason for upgrade or degrade or allocation of

Risk history: It is to be noted that the risk profile would be given a date based concept, so that we know that initially the client was in low risk when the account was opened on 20-06-2008 and then in 11-05-2011 the client was upgraded to medium because some unusual trading pattern was observed and then later upgraded to high on 14-02-2012 by an RMS team member for the reason which may be specified by the user.

Medium Risk: The clients can be classified could be classified into the medium risk category depending on a lot of things like Client wise Large Turnovers , particular Script exposure / trading , client's income range , trading pattern. If any of the client would satisfy the above criteria, depending on the criteria satisfied the same would be classified into medium or high risk.

High Risk: The clients of medium risk could be classified into the high risk category depending on excessive and further unusual, patterns like Client wise Large Turnovers, particular Script exposure / trading , client's income range , trading pattern. If any of the client would satisfy the above criteria, depending on the criteria satisfied the same would be classified into high risk.

Very High Risk: The Clients for whom STR's have been files may be moved to very High Risk.

Broking Alerts generated by AML Software

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 scrip over a period of one year or x period. Also analysis of his focus on the investment pattern.
- Could give lead to Insider Trading indicators
- Could give lead to an understanding that for multiple accounts there is a common operator based on trading pattern
- Could give lead to an understanding that for multiple accounts there is a common operator based on mobile number or email address

Group Parameter 2(Client Exchange Volume)

- To understand the intent of the client on his share of turnover, trades, percentage, movement of the price over that period. Clubbed report for a period for a client for a scrip. 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 scrips. 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.
- ✓ Could lead to indicators of market manipulation
- ✓ Could lead to pump and dump theory indicators
- ✓ Could give indicators on artificial profit or loss creation
- ✓ Could lead to indicators of artificial volume creation
- ✓ Could lead to indicators of activity in illiquid scrip
- ✓ Could lead to indicators of circular trading

Group Parameter 3 (IlliquidScrips)

To understand the intent of the client when he would like deal in not so liquid scrip. Could lead to indicators of unusual activity or manipulation activity in illiquid scrip

Group parameter 4: (Cross Segment Client Strength)

This is a parameter which will tell you the financial size vis a vis the fund flow and whether there is violation combining multi segments.

Factors considered

Buy in equities
Sell in equities
Profit / Loss In Equities/ Derivatives
Exposure Margin
Span Margin
Option Premium paid
Option Premium written off.
Income
Net Worth

It will highlight clients who are bringing funds way beyond their financial strength.

Group parameter 5: (Client Purchase to Income)

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

- ✓ Factors considered
- ✓ Buy in equities
- ✓ Sell in equities
- ✓ Income

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

Group parameter 6: (Financial Transactions)

It will focus on clients which are bringing money in the form of pre funded instruments or it can be extended to RTGS / NEFT or cheque also.

Clients with more payments in the form of pre funded instruments can be highlighted.

Group parameter 7: (Dormant Account)

Dormancy can be defined in number of days.

If a client does a trade after X days and worth value Y then accordingly negative grades are allotted and highlighted.

Group parameter 8: (Synchronized Trading)

Highlight clients who are trading within themselves.

- ✓ Could lead to indicators of market manipulation
- ✓ Could lead to pump and dump theory indicators
- ✓ Could give indicators on artificial profit or loss creation
- ✓ Could lead to indicators of artificial volume creation
- ✓ Could lead to indicators of activity in illiquid scrip
- ✓ Could lead to indicators of circular trading

Group parameter 9: (Open Interest Report)

- ✓ Get clients whose position in the derivatives market in an instrument is comparable or very close to open position in the derivative exchange as a whole.

- ✓ Could give lead to Insider Trading indicators
- ✓ Could give indicators on artificial profit or loss creation
- ✓ Could lead to indicators of activity in illiquid options

Group parameter 10: (Option Fair Value)

Tracking illiquid options and profit loss adjustments. This will highlight those clients who deal in illiquid options at a price which is away from the fair price.

Factors considered

High Price of the underlying stock in the case segment

Low Price of the underlying stock in the case segment

Volatility % of the instrument

Risk Free Interest rate

Time Period left for expiry

The system calculates the fair value using formula similar to Black Scholes. It calculates two values X to Y. If the client deals in Z which is outside range of X to Y, then it highlights as suspicious trades also giving the comparison with the exchange volume and the open interest.

Group parameter 11: (Broker Exchange Volume)

Here the comparison is done of the Broking Entity Volume as a whole with the Exchange Volume

Group parameter 12: (Key person matching for Non Individuals)

This criteria will highlight to you accounts which have common controllers or common owners. Example if an Individual is a director in 4 different private limited companies and they have 4 trading account with the broker.

The matching is done based on

Name of the Individual

Email of the Individual

PAN of the Individual

Mobile Number if the Individual