

POLICY

ON

ANTI MONEY LAUNDERING ON STOCK BROKING

FOR

CREATION OF CLIENT AWARENESS

Objective – RR Equity Brokers P Ltd. have designed this policy of PMLA and effective AML program to prohibit and actively prevent the money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities or flow of illegal money or hiding money to avoid paying taxes and to funding for terrorist 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. To discourage and identify any Money laundering or Terrorist financing Activities. To protect the interest of investors in securities and to promote the development of the securities market.

Meanings

Following are the meanings of the acronyms used in this policy:

PMLA -Prevention of Money Laundering Act, 2002

AML - Anti Money Laundering

CDD - Client Due Diligence

CFT - Combating the Financing of Terrorism

KYC -Know Your Client

FIU-IND - Financial Intelligence Unit – India

STR -Suspicious Transaction Reporting

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2. Overview

a. Introduction

The Directives as outlined below provide a general background and summary of the main provisions of the applicable anti-money laundering and anti-terrorist financing legislations in India. They also provide guidance on the practical implications of the Prevention of Money Laundering Act, 2002 (PMLA). The Directives also set out the steps that a registered intermediary or its representatives shall implement to discourage and to identify any money laundering or terrorist financing activities. The relevance and usefulness of these Directives will be kept under review and it may be necessary to issue amendments from time to time.

This policy provides a detailed Account of the procedures and obligations to be followed to ensure compliance with issues related to **KNOW YOUR CLIENT (KYC) Norms, ANTI MONEY LAUNDERING (AML), CLIENT DUE DILIGENCE (CDD) and COMBATING FINANCING OF TERRORISM (CFT)**. Policy specifies the need for Additional disclosures to be made by the clients to address concerns of Money Laundering and Suspicious transactions undertaken by clients and reporting to FINANCE INTELLIGENT UNIT (FIU-IND). These policies are applicable to all our Clients Including Branch Clients and Head office Clients' Operations and to be reviewed from time to time.

2. Background

- 2.1 Anti Money laundering (AML) -SEBI had issue the guidelines on Anti Money Laundering standards vide their notification no. ISD/CIR/RR/AML/1/6 dated 18th January 2006 and vide letter no.ISD/CIR/RR/AML/2/6 dated 20th March 2006 had issue the obligation of intermediaries registered under section 12 of the Securities and Exchange Board of India Act, 1992. As per the SEBI guidelines, all intermediaries have been advice to ensure that proper policy frameworks are put in place as per the guidelines on Anti Money Laundering standards notify by SEBI
- 2.2 Financial Intelligent Unit (FIU): The government of India set up Financial Intelligent Unit -India (FIU) on 18th November 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 transaction. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against Money laundering and related Crimes.
- 2.3 The Prevention of Money Laundering Act, 2002 (PMLA): The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with 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, and Government of India.

Implementation of this Policy

Compliance Officer will be the principal officer responsible for

- Compliance of the provisions of the PMLA and AML guidelines
- Act as the central reference point and play an active role in identification & assessment of potential suspicious transactions.
- Ensure that RR Equity Brokers P Ltd. discharges its legal obligation to report suspicious transactions to the concerned authorities.

Each registered intermediary should follow these directives to implement the anti money laundering provisions as envisages under the PMLA. These directives can be summarized in the form of a procedure called “Client due Diligence Process”.

- **Client Due Diligence Process**

The Customer Due Diligence process involves three specific parameters:

- Policy for Acceptance of Clients
- Client Identification Process
- Suspicious Transactions identification and Reporting (STR)

A. Policy for Acceptance of Clients:

With respect to policy for acceptance of clients, the following may be provided:

No account shall be opened unless all the KYC Norms as prescribed from time to time by the SEBI / Exchanges are duly complied with, all the information as required to be filled in the KYC form (including financial information, occupation details and employment details) is actually filled in and the documentary evidence in support of the same is made available by the client. Moreover all the supporting documents should be verified with originals and client should sign the KYC & MCA in presence of our own staff and the client should be introduced by an existing clients or the known reference.

Verify the client detail with UN’s Terrorist list at www.un.org and www.world-check.com and take additional due diligence, if any similarity found. Pan No must be verified from Income Tax Web Site.

Address must be verified by sending Welcome Letter / Qtly Statement of Account, and in case any document returned undelivered the client should be asked to provide his new address proof before doing any further transaction.

B. Risk Based Approach Profiling of the clients:

According to trading activity the clients are profiled into below mentioned categories:
Low Risk Clients- these clients trade for investment purpose and higher exposure done into the delivery based. Medium Risk Clients- these clients trade for high return and there is higher exposure to speculative transaction. High Risk Clients- these clients are of very high speculative nature, taking 100% exposure in derivatives, trade in illiquid stocks or highly volatile instruments or the clients having default history.

C. Clients of Special Category - Examine the minute details while accepting Clients of Special Category which may be individuals like NRI, HNI's, Politically Exposed Persons (PEP), high profile politicians, current/former head of state, clients from high risk/high corruption countries or non-individual groups like Trusts, Charities, NGO's.

- Ensure that no account is opened which are fictitious/benami name or is being anonymous and account is opened only after the receipt of all the necessary information with supporting documents as per the regulatory guidelines, any refusal or reluctance of submitting the documents should be rejected from opening an account.
- His/Her "Identity /Financial Position" among other things are to be thoroughly verified before accepting as a client.

D. Client Identification Process (CIP): This process is meant to establish the identity of client and valid proof of the address in order to prevent opening of any anonymous/fictitious/benami account.

The documents necessary for the authenticity of the client are:

- PAN Card: PAN card is mandatory for all account opening, its genuineness should be checked through IT website.
- IDENTITY Proof: PAN card in itself is sufficient as an identity proof, however if identification is difficult by PAN card, then Voter's ID card, Passport, Ration Card, or any Government/PSU/Bank issued identity card/Aadhar Card.
- ADDRESS Proof: For valid address proof we can rely on voter's Id card, Passport, Bank Statement, Ration Card and latest electricity or telephone bill in the name of the client.

Documents required for Client Registration Procedure for new clients can be obtained from our Client Registration Form.

E. Record Keeping:

A proper record of the following has to be maintained :

1. All series of transactions integrally connected to each other which have been valued below rupees 10 lacs or the Transaction of more than 10 Times of Client Annual Income (Where the actual transfer of fund exist, derivative Transaction where the Margin Amount is More than 10 Lacs), where such series of transactions

have taken place within a month and the aggregate value of such transactions exceeds rupees ten lacs ;

2. All suspicious transactions by any of the ways as mentioned in the Rules.

All these type transactions should be recorded and inform to Principal Officer with Full Detail – Client Code, Client Name, Date of Transaction, Mode of Transaction i.e. Bank transfer, Pre Funded Instrument, Third Party Money Transfer, Trading Transaction, Interconnected Trading Transaction-Transaction where the same position taken in Different code (One buyer / One Seller) of the same group or family, the client working with Different Broking House and counter his position, any other related transaction, or any other transaction feel.

F. Retention of Records

The following information in respect of transactions referred to above needs to be maintained:

- The nature of the transactions;
- the amount of the transaction and the currency in which it denominated;
- The date on which the transaction was conducted; and
- The parties to the transaction together with Client codes.

Records should be maintained with the Nature and Value of Transactions, minimum 10 years without any proceeding, and if any proceeding, then till the end of proceeding or 10 years whichever will be later.

G. Monitoring of Transaction

Regular monitoring of transactions is vital for ensuring effectiveness of the Anti money laundering procedures. For this purpose, Branches may be required to demand certain information from investors which may be of personal nature or which has hitherto never been called for, Examples are: documents evidencing source of funds/income tax returns/bank records etc.

This can sometimes lead to raising of questions by the Client with regard to the motive and purpose of collecting such information. Thus there is a need for us to sensitize these clients about these requirements as the ones emanating from AML and CFT framework.

Therefore, Risk Management Cell/Compliance Cell should keep a vigil on daily transactions to observe any unusual/abnormal activity which can be reported to Compliance dept at corporate office.

Our Accounts and RMS department has mechanism to monitor the day to day receipt of fund from the clients and then after thorough checking the same is properly accounted in the respective client ledger and no third party payments are allowed in any mode. In case any

payment is received or made we ensure that the same is made to and from the bank account/s mapped under a respective client.

No Cash transactions for trading in securities shall be allowed at form any client.

Our systems are in place to ensure compliance with provisions of SEBI Circular dated 09th June 2011 on pre funded instruments and electronic fund transfers

- ❖ For aggregate value of pre-funded instruments is upto Rs. 50,000/- or more, per day per client
 - We accept the instruments only if the same are accompanied by Bank Certificate giving bank account holder and number of the bank account debited for the purpose
- ❖ For funds received through electronic fund (NEFT/ RTGS/ Electronic transfers)
 - Maintain Audit Trail.
 - Procure scan copy of each instrument to verify whether the same has been received from the bonafide account of the client account mapped in our system..
 - Keep track of the account from which the fund/s are being received

H. RECRUITMENT & TRAINING

While recruiting personnel for offices, high standards should be ensured to identify key personnel having regard to the risk of money laundering and terrorist financing in relation to the size of the business and ensure the employees taking up such key positions are suitable and competent to perform their duties. All due diligence should be taken at the time of staff recruitment. Previous record capturing, tracking and checking is necessary for new recruitment. These tools are helpful for recruitment of staff. All new staff's PAN card must be check in SEBI block List.

- ❖ Permanent Address proof must be taken from each one of New Recruit. Two references should be taken.
- ❖ Should get introduction from existing staff.
- ❖ NOC from old employer should be taken.
- ❖ Financial background and its sources.

Similarly HRD at H.O. / C.O. will initiate steps to include training on the AML and CFT procedures to members of the staff on continuous basis. Training requirements should have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new customers. A meeting with the agenda of AML training should be introduced at least once in a quarter, which takes into account of the new development of policy and examples of types of suspicious transactions.

I. SUSPICIOUS TRANSACTION MONITORING & REPORTING

An illustrative list of circumstances which may be in the nature of suspicious transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

- Clients whose identity verification seems difficult or clients appear not to cooperate this type of account should send to HO with special verification request.
- Substantial increases in business without apparent cause – especially if the client doesn't get benefited from the transactions.
- Any unusual or unworthy type transactions usually not done by clients – non beneficial transactions
- Clients transferring large sums of money
- Transfer of investment proceeds to apparently unrelated third parties;
- Client in hurry to get open any account makes transaction and payout.
- Unusual transactions by CSCs and businesses undertaken by shell corporations, offshore banks / financial services, businesses reported to be in the nature of export – import of small items.
- The documents provide by the client provide generic information.

Designated Principal Officer: In the Case of any further Information/clarification is required in this regards, the “Principal Officer” may be contacted.

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