

M.S.N.SECURITIES PVT.LTD.

WRITTEN PROCEDURES TO IMPLEMENT THE PREVENTION OF ANTI MONEY LAUNDERING AS ENVISAGED UNDER THE ANTI MONEY LAUNDERING ACT, 2002

Background

The Prevention of Money Laundering Act, 2002 came into effect from 1st July 2005. Necessary Notifications / Rules under the said Act were 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, a stock-broker 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. Such transactions include:

1. All cash transactions of the value of more than Rs 10 lacs or its equivalent in foreign currency.
2. All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
3. All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non monetary account such as d-mat account, security account maintained by the registered intermediary.

Designation of an officer for reporting cash and suspicious transactions

The Company will appoint a principal officer to act as a central reference point in. Current Principal Officer : Mr. Mehrab Nargolwala, Chairman & Managing Director .

Staff should directly report to the above-mentioned Principal Officer. In case any explanations /clarification the staff member can also contact him.

Foreign Exchange Transactions

Please note that at present the Company is not dealing with any foreign clients and hence there are no transactions in foreign currency . Consequently these policies do not relate to foreign exchange transactions

Policy regarding Cash Transactions

i. Cash transactions with clients are strictly prohibited.

Policy regarding Suspicious Transactions

Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith –

- (a) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- (b) appears to be made in circumstances of unusual or unjustified complexity; or
- (c) appears to have no economic rationale or bonafide purpose.

The following are the broad guidelines for reporting to the any matter to the Principal Officer.

- i. Any false documents submitted with or statements made in the KYC .
- ii. Large number of accounts having a common introducer with no rationale
- iii. Suspicious background or links with known criminals
- iv. Unexplained transfers between multiple accounts with no rationale
- v. Unusual activity compared to past transactions
- vi. Sudden activity in dormant accounts
- vii. Activity inconsistent with what would be expected from declared business
- viii. Account used for circular trading
- ix. Unusual or unjustified complexity
- x. Source of funds are doubtful
- xi. Investment proceeds transferred to a third party
- xii. Transactions reflect likely market manipulations
- xiii. Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- xiv. Inconsistent with the clients apparent financial standing
- xv. Inconsistency in the payment pattern by client

- xvi. Block deal which is not at market price or prices appear to be artificially inflated/deflated

Policies and Procedures

The following policies and procedures should be immediately put into practice . The Compliance Officer shall regularly review the policies and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness.

The main areas have been identified are as under :

- 1. **Client Due Diligence Process**

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

- (a) Obtaining sufficient information in order to identify persons who beneficially own or control securities 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) Verify the customer’s identity using reliable, independent source documents, data or information;
- (c) Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the customer and/or the person on whose behalf a transaction is being conducted;
- (d) Verify the identity of the beneficial owner of the customer and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c); and
- (e) Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary’s knowledge of the

customer, its business and risk profile, taking into account, where necessary, the customer's source of funds.

- (f) It is the Company's policy that generally no third party Receipts or payments shall be allowed.

2. Policies for acceptance of Clients

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

- b) Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters should enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of KYC profile.

- c) Documentation requirement and other information to be collected in respect of different classes of clients depending on 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.

- d) No account is to be opened where it is unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the intermediary is suspected to be non genuine, perceived non co-operation of the client in providing full and complete information. It should also be evaluated whether there is suspicious trading in determining whether to freeze or close the account.

- e) The circumstances under which the client is permitted to act on behalf of another person / entity should be clearly put in writing, which should specify in what manner the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. Further the rights and responsibilities of both the persons (i.e the agent- client registered with the intermediary, as well as the person on whose behalf the agent is acting should be clearly laid down). Adequate verification of a person's authority to act on behalf the customer should also be carried out.

f) Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client 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.

3. Risk Assessment

a. It is generally recognized that certain customers may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business relationship or transaction etc. As such, the staff should apply each of the customer due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that enhanced customer due diligence process should be adopted for higher risk categories of customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with the risk-based approach, the type and amount of identification information and documents that should be obtained necessarily depend on the risk category of a particular customer.

b. Clients of Special Category

Extra care should be taken while accepting clients from special category. In case the officer concerned is not satisfied he may reject such clients after noting down the reasons for suspicion.

An illustrative list of such clients is given hereunder :

- i. Non resident clients
- ii. High networth clients,
- iii. Trust, Charities, NGOs and organizations receiving donations
- iv. Politically exposed persons (PEP) of foreign origin
- v. 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)
- vi. Clients with dubious reputation as per public information available etc.

