

PREVENTION OF MONEY LAUNDERING ACT, 2002

Policy Framework and Procedure Manual

By

MACONOCHIE & CO.



1. INTRODUCTION

- 1.1. The Prevention of Money Laundering Act, 2002 (PMLA) has come into effect from July 1, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on July 1, 2005 by the Department of Revenue, Ministry of Finance, Government of India.
- 1.2. As per the provisions of the PMLA, every banking company, financial institution (which includes chit fund company, co-operative bank, housing finance institution and 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, underwriter, 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 record of all the transactions. The nature and value of which has been prescribed in the Rules under the PMLA. Such transactions shall include:
- (i) all cash transactions of the value of more than Rs.10 lakh or its equivalent in foreign currency.
 - (ii) all series of cash transactions integrally connected to each other which have been valued below Rs.10 lakh or its equivalent in foreign currency, where such series of transactions take place within one calendar month.
 - (iii) all suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non monetary account such as demat account, security account maintained by the registered intermediary.

It has been clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' should also be considered.

2. GUIDELINES ON ANTI-MONEY LAUNDERING STANDARDS

- 2.1. Every registered intermediary is required to adopt written procedures to implement the Anti-Money Laundering Procedures as envisaged under PMLA. Such procedures should include, inter-alia, the following which are related to overall customer due diligence process:
- (i) policy for acceptance and registration of client.
 - (ii) procedure for identifying the bonafides of a client.
 - (iii) transaction monitoring and reporting, especially those which are of a suspicious nature.



3. POLICY FRAMEWORK & PROCEDURAL GUIDELINES

3.1. General

- (i) In the case of Maconochie & Co. (MCN) the SEBI's Anti-Money Laundering Guidelines would cover the clients of MCN
- (ii) The clients whose activities need to be monitored under PMLA are the clients who trade through MCN
- (iii) Accordingly, the policy framework and the procedural guidelines have been stated separately for the clients of MCN.
- (iv) A registered intermediary should ensure compliance with the record keeping requirements stipulated in the SEBI Act, 1992 and the Rules & Regulations made thereunder, PMLA, relevant other Acts, Rules & Regulations made thereunder and the Bye-laws, Circulars of the relevant Exchange(s).
- (v) Clients are required to maintain such records as are necessary to permit reconstruction of individual transactions, including transaction amounts, so as to provide evidence in any criminal investigation.

3.2. Customer Due Diligence

Stock Brokers

- (i) Any person interested to become a client of MCN has to fulfill the compliances and procedures specified by MCN and SEBI.
- (ii) Authorised Person (AP) permission can be obtained in the name of an Individual, Proprietorship Firm, Partnership Firm and Private or a Public Limited Company.
- (iii) In case AP permission is being obtained by an individual, then due diligence is required in respect of the sole proprietor. In case the AP permission is in the name of a partnership firm, the due diligence is required in respect of all the partners of the firm and in case the AP permission is in the name of a company, the due diligence is required in respect of all Directors of the corporate entity.
- (iv) Irrespective of the constitution of the AP, the sole proprietors, partners or the directors and shareholders, as the case may be, will be required to submit proof of identity which could be copies of their PAN cards, passports, driving licenses. Further, he / they will also be required to submit proof of address document(s), such as ration card(s), passport(s), driving license(s), latest electricity bill(s) (not older than two months), latest residential telephone bill(s) BSNL (not older than two months) or bank pass book(s).
- (v) Verification of the proof of identity and proof of address is carried out by the staff of the Client Registration department of MCN which is counter-checked by an Authorised Official of MCN.
- (vi) Only after MCN has satisfied itself about the bonafides and suitability of the applicant, his / their application for registration as a client of MCN would be forwarded to MSE for upload.



Client-Member Operations

- (i) Clients who get selected by MCN to be eligible to trade can sign the Stock Broker and Client Agreement and they shall act as clients of MCN.
- (ii) The client is required to show his PAN card in original to the MCN staff as proof of identity. A photocopy of the same is retained by MCN for its record.
- (iii) As far as proof of address is concerned, the original ration card, passport, voter id card, driving license, bank passbook, original electricity bill or residence telephone bill (not older than two months), together with photocopies of the same, or notarized leave & license agreement / agreement of sale of the residential unit of the client have to be furnished at the sub-broker offices for verification. The original is returned to the client, while the copy is kept as a record by MCN.
- (iv) In addition, a passport sized photograph signed by the client across its face is required, as well as bank account details.
- (v) Information pertaining to the investment and trading experience / preferences of the clients should be provided by all the clients in the Client Registration Document.
- (vi) Information pertaining to liquid financial assets as declared by the client should compulsorily be filled in KYC form.
- (vii) In case of Hindu Undivided Family (HUF): The documents required for an individual client will, in the case of an HUF, be required to be submitted by each of the family members of the HUF. Full particulars of the family members, their names, dates of birth and relationship with the karta are necessary. The karta should sign the account opening form, affixing also the stamp of the HUF. The PAN card of the HUF and Photograph of Karta is also required.
- (viii) In case of a corporate entity: A certified true copy of the board resolution authorizing the specific individual(s) to operate the trading account as authorized signatory/ies and the manner of operating the account, as well as the designation(s) and specimen signature(s) of the authorized signatory/ies certified by the Managing Director or Company Secretary of the corporate entity, would be required. In addition, a certified true copy of the memorandum & articles of association of the company and passport sized photograph(s) of each of the authorized signatory/ies signed across its face would also be necessary. In case power of attorney has been granted to any specific individual, an attested true copy of the same would be required to be submitted to MCN. In addition, PAN No. of the corporate entity is required.

3.3. Policy for acceptance of a Trading Client

- (i) In the case of a client wishing to open his trading account through MCN, introduction is mandatory and the details of the introducer should be completely filled in the Client Registration Document.
- (ii) Where it is found that the information submitted by the client is false, MCN would forthwith stop the processing of the application for registration as a client of MCN. In case the applicant has already been registered as a client, then MCN would deactivate the client.



3.4. Record keeping:

- (i) All documents relating to registration of clients shall be preserved as long as he continues to be a client.
- (ii) All records of transactions effected through MCN, will be maintained as per the applicable provisions of the relevant Acts and Rules .
- (iii) Client identification documents (copies of proof of identity, proof of address etc.) shall be preserved as long as he continues to be a client of MCN and for a further period of 36 months from the date of last transaction.
- (iv) In a situation where the information is required for an ongoing investigation or a transaction or set of transactions have been flagged for suspicious transaction reporting, the information shall be retained until the concerned investigating authority confirms that the case is closed.

3.5. Limit of cash transaction:

The trading clients of MCN would be required to ensure that no cash transaction takes place. However, in exceptional circumstance MCN may receive the amount in cash, to the extent not in violation of the Income-tax requirement as may be in force from time to time.

3.6. Monitoring of securities transactions:

- (i) MCN will monitor the activities of their clients on a continuous basis, so that deviant transactions / activities can be flagged off for investigation.
- (ii) APs would be advised to pay special attention to complex or unusual transactions or trading patterns, which appear to have no economic purpose.

3.7. Monitoring of trading transactions:

- (i) Trading involving a quantity of more than 0.5% of the number of equity shares of any Company would be taken up for further scrutiny and where necessary, for detailed investigation by the Registered Intermediaries.
- (ii) In the case of penny stocks (whose shares trade at less than 50% of the paid-up value of the share) trading for quantities above 1,00,000 shares would be taken up for further scrutiny by the Registered Intermediaries.
- (iii) The APs should exercise utmost vigil over the transactions of the clients and inform MCN immediately when there is any doubt / suspicion about the activities of their clients.



3.8. Designation of an officer for reporting suspicious transactions:

The information relating to suspicious transactions or large transactions warranting further investigation would be forwarded to FIU, New Delhi. MCN had designated Mr. S.Venkateswaran, as the Principal Officer under the PMLA.

3.9. Hiring of Employees and their Training:

- (i) The staff required for MCN would be appointed by MCN after proper screening. The APs would be advised to put in place high standards for hiring employees.
- (ii) Key positions in MCN would be identified and it would be ensured that the employees taking up these positions are suitable and competent to perform their duties.
- (iii) MCN would provide training on Prevention of Anti-money Laundering Guidelines to all new recruits. The APs would also be advised to have similar training programmes for their new employees.



Clients of special category (CSC):

Such clients include the following-

- a. Non resident clients
- b. High networth 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. Companies offering foreign exchange offerings
- h. 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.
- i. Non face to face clients
- j. Clients with dubious reputation as per public information available etc.

The Firm has designated Mr. S.Venkateswaran as the Principal Officer for its Anti-Money Laundering Program, with full responsibility for the Firm's AML program. The duties of the Principal Officer will include monitoring the company's 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).



Employees' Hiring/Employee's Training/ Investor-Education

Hiring of Employees

We have adequate screening procedures in place to ensure high standards when hiring employees. They should identify the key positions within the organization structures having regard to the risk of money laundering and terrorist financing and the size of the business and ensure that the employees taking up such key positions are suitable and competent to perform their duties.

Employees' Training

We also have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training is designed as such to have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new customers. It is also ensured that all those concerned fully understand the rationale behind these guidelines, obligations and requirements, implement them consistently and are sensitive to the risks of the systems being misused by unscrupulous elements.



Risk Categorisation

The clients will be categorized under low, medium and high-risk, based on their financial positions declared by them in KYC and their trade turnover per day.

Corporates / HNIs and others having respectable social and financial standing, who make payment on time and take delivery of shares will be placed under Low Risk.

Intra-day clients or speculative clients whose turnover is in line with the Financials declared will be considered as Medium Risk clients.

Clients trading on a regular basis in illiquid scrips in large volume and quantity and those who have defaulted in the past and have suspicious background will be considered as High risk clients.

Clients under CSC as mentioned in PMLA will be considered as High risk clients.

Cheques given by a client for their dues to us gets bounced for more than 2 occasions in a month or 5 times within 6 months period will be notified and will be considered as high risk clients.

Client's Risk categorisation will be assessed by Compliance Officer on a regular basis and will be recorded.

