

# INTEGRATED MASTER SECURITIES PRIVATE LIMITED

(Member: BSE, NSE, MSEI, Depository Participant of NSDL & CDSL)

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## POLICIES AND PROCEDURE FOR PREVENTION OF MONEY LAUNDERING

(As per the requirements of the PMLA Act 2002)

### 1. Background

1.1. Pursuant to the recommendations made by the Financial Action Task Force on anti-money laundering standards, SEBI had issued the Guidelines on Anti Money Laundering Standards vide their notification No.ISD/CIR/RR/AML/1/06 dated 18th January 2006 and vide letter No.ISD/CIR/RR/AML/2/06 dated 20th March 2006 had issued the obligations of the intermediaries registered under Section 12 of SEBI Act, 1992. As per these SEBI guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

### 2. What is Money Laundering?

2.1 Money Laundering can be defined as engaging in financial transactions that involve income derived from criminal activity, transactions designed to conceal the true origin of criminally derived proceeds and appears to have been received through legitimate sources/origins.

2.2 This is done in three phases – Placement Phase, Layering Phase & Integration Phase.

### 3. Prevention of Money Laundering Act, 2002

3.1. 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.

3.2. 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

4.1. 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.

4.2. 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 crimes.

### 5. Purpose & Scope:

As a Financial Market Intermediary (which includes a stock-broker, sub-broker) we need to maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA. Accordingly all the back office and trading staff is instructed is instructed to observe the following safeguards:

1. No Cash transactions for trading in securities shall be allowed from any client in the normal course of business.
2. Maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules notified under the PMLA. Such transactions include:
  - Cash transactions of the value of more than Rs 10 lakhs or its equivalent in foreign currency.
  - 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.
  - All suspicious transactions whether or not made in cash.
3. Frequent off Market transfers from one BO account to another shall be scrutinized and asked for. In absence of valid reason case or found suspicious, it shall be brought to the notice of Principal Officer.
4. Trading beyond ones declared income: The turnover of the clients should be according to their declared means of income. Any abnormal increase in client's turnover shall be reported to Principal Officer. The Back Office staff should take due care in updating the clients' financial details and shall periodically review the same.

## **6. Policy of Integrated Master Securities (P) Limited**

Integrated Master Securities (P) Limited (IMSPL) has resolved that it would, as an internal policy, take adequate measures to prevent money laundering and shall put in place a frame-work to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002. This policy is applicable to IMSPL Employees, Sub-Brokers and Authorised Persons (AP).

## **7. Appointment of Principal Officer and Designated Director**

### **Principal Officer:**

Mr. S. C. Khaneja is appointed as the Principal Officer. He will be responsible for implementation of internal controls & procedures for identifying and reporting any suspicious transaction or activity to the concerned authorities. Principle officer has the right of timely access to customer identification data, other CDD information and is able to report the same to senior management or the board of directors.

### **Designated Director:**

Mr. Kunal Khaneja is appointed as the Designated Director of the company in terms of rule 2 (ba) of the PML rules. He will be responsible for ensuring overall compliance with the obligations imposed under chapter IV of the Act and the Rules.

## **8. Objective of these Guidelines**

- 8.1 The purpose of this document is to guide all the employees of IMSL and employees of its associates on the steps that they are required to take and implement to prevent and identify any money laundering or terrorist financing activities. It shall be the responsibility of each of the concerned employees that they should be able to satisfy themselves that the measures taken by them are adequate, appropriate and follow the spirit of these measures and the requirements as enshrined in the "Prevention of Money Laundering Act, 2002".
- 8.2 Some of these suggested measures may not be applicable to every circumstance or to each department, Branch / Sub-broker. However, each entity should consider carefully the

specific nature of its business, type of customer and transaction to satisfy itself that the measures taken by the employees are adequate and appropriate to follow the spirit of these guidelines.

## **9. Implementation of this Policy**

9.1 Mr. S. C. Khaneja, Director of the Company 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 IMSL discharges its legal obligation to report suspicious transactions to the concerned authorities.
- IMSL also takes into consideration any abnormal transaction and the same is enquired and inspected.

9.2 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.

## **10. Periodic review of the Policy:**

The policy shall be reviewed for its effectiveness, from time to time as and when required by the Management. The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism. Policy must be reviewed at least once in every 6 months by the board of directors.

By order of the Board of Directors of  
**Integrated Master Securities Pvt. Ltd.**  
Sd/-  
Compliance Officer

## **'Know Your Customer' Guidelines**

While establishing the intermediary – client relationship 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.

### **1. Know Your Customer Standards**

- a) The objective of the KYC guidelines is to prevent IMSL from being used, intentionally or unintentionally, by criminal elements for money laundering activities. KYC procedures enable IMSL to know/understand their customers and their financial dealings better which in turn help them manage their risks prudently. The revised KYC policy of the IMSL incorporates the following four elements:
- Customer Acceptance Policy (CAP)
  - Customer Identification Procedures (CIP)
  - Monitoring of Transactions; and
  - Risk Management
- b) A customer for the purpose of KYC Policy is defined as:
- A person or entity that maintains an account and/or has a business relationship with the broker.
  - One on whose behalf the account is maintained (i.e., the beneficial owner)
  - Beneficiaries of transactions conducted by professional intermediaries, such as Stock Brokers, Chartered Accountants, Solicitors, etc as permitted under the law
  - Any person or entity connected with a financial transaction which can pose significant reputational or other risks to the broker, say, a wire transfer or issue of high value demand draft as a single transaction.

### **2. Customer Acceptance Policy (CAP)**

2.1 The following Customer Acceptance Policy indicating the criteria for acceptance of customers shall be followed in by the broker. The dealers shall accept customer strictly in accordance with the said policy:

- No account shall be opened in anonymous or fictitious/benami name(s)
- Parameters of risk perception shall be clearly defined in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc., to enable categorization of customers into low, medium and high risk called Level I, Level II and Level III respectively; Customers requiring very high level of monitoring e.g., Politically Exposed Persons (PEPs) may be categorized as Level IV.
- IMSL shall collect documents and other information from the customer depending on perceived risk and keeping in mind the requirements of AML Act, 2002 and guidelines issued by RBI from time to time.
- IMSL shall close an existing account or shall not open a new account where it is unable to apply appropriate customer due diligence measures i.e., branch is unable to verify the identity and/or obtain documents required as per the risk categorization due to non cooperation of the customer or non reliability of data/information furnished to the branch. The dealers shall, however, ensure that these measures do not lead to the harassment of the customer. However, in case the account is required to be closed on this ground, the dealers shall do so only after permission of Senior Official of their concerned Offices is obtained. Further, the customer should be given a prior notice of at least 20 days wherein reasons for closure of his account should also be mentioned.
- IMSL shall make necessary checks before opening a new account so as to ensure that the identity of the customer does not match with any person with known

criminal background or with banned entities such as individual terrorists or terrorist organizations, etc. RBI has been circulating lists of terrorist entities notified by the Government of India so that IMSL exercise caution against any transaction detected with such entities. The dealers shall invariably consult such lists to ensure that prospective person/s or organizations desirous to establish relationship with the IMSL are not in any way involved in any unlawful activity and that they do not appear in such lists.

- b) IMSL shall prepare a profile for each new customer based on risk categorization. The broker has devised a revised Composite Account Opening Form for recording and maintaining the profile of each new customer. Revised form is separate for Individuals, Partnership Firms, Corporate and other legal entities, etc. The nature and extent of due diligence shall depend on the risk perceived by the dealer. The dealers should continue to follow strictly the instructions issued by the IMSL regarding secrecy of customer information. IMSL should bear in mind that the adoption of customer acceptance policy and its implementation does not become too restrictive and should not result in denial of brokering services to general public, especially to those, who are financially or socially disadvantaged.

## **2.2. Risk Profiling of the Client**

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 payment etc.

Clients' due diligence/risk assessment shall be carried out with respect to the clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions (which can be accessed from the following links:-

[http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml); and  
<http://www.un.org/sc/committees/1988/list.html>  
<http://www.un.org/sc/committees/1267/consolist.html>.  
<https://www.iosco.org/>  
<http://www.mca.gov.in/>  
<http://www.watchoutinvestors.com/default2a.asp>

The guidelines define certain minimum standards of account documentation for all new customer relationships, to enable the Company to understand the nature of the customer's business, carry evidence of key data regarding the customer and its principal owners/signatories and understand the type and level of activity that is to be considered as normal in the customer's account Customers may be classified in the following risk categories.:

The basis for Categorization of clients as High Risk, Medium Risk and Low Risk is as follows:

### **Risk Categorisation**

#### **Low Risk**

Low Risk clients are those who pose very little or virtually no risk, they are good corporates, HNIs who have respectable social and financial standings. Further Clients who does not fall in High / Medium Risk will fall under Low Risk Client.

The following clients may be categorized as Low Risk :

- Individual clients who do not indulge in any abnormal activity
- Self Employed-Professionals/Businessmen who do not indulge in any abnormal activity
- Non Resident Individuals who do not indulge in any abnormal activity
- Partnership Firms who do not indulge in any abnormal activity
- Public/ Private Limited Companies who do not indulge in any abnormal activity
- Local Authorities and Public Bodies who do not indulge in any abnormal activity
- FPI/FII/ Mutual Funds who do not indulge in any abnormal activity
- Any other client who falls under the above category who do not indulge in any abnormal activity

In case the client(s) who fall under the low risk category and does transactions where there are suspicions of Money Laundering / Financing Terrorism (ML/FT) or when other factors give rise to a belief that the customer activities are not normal, the categorization should be immediately changed and STR should be filed.

Apart from this we need to exercise extra caution while monitoring the transactions of NRI/NRE/PIO and foreign clients.

An assessment should be made of the financial worthiness of the client by obtaining appropriate declarations at KYC stage. This information should be subsequently used for monitoring whether the transactions of the clients are within the declared means and if the value of the transactions is increasing the client should be asked to disclose the increasing sources of funds.

### **Medium Risk**

Client who is permitted to act on behalf of another person in the manner of operating such accounts on the basis of POA.

In case of a client where there is continuous margin shortfall

Regular instances of cheque dishonoured are categorised as medium risk clients.

Individual and Non-Individual clients falling under the definition of Speculators, Day Traders.

As the Transactions in the F&O segment are of highly risks, the clients doing excessive trading in Futures and Options segment and have provided just adequate margins / collaterals

### **High Risk**

In addition to client defined in special category, clients who have defaulted in the past and/or have suspicious background, and do not have any financial status. The following clients may be classified as high risk.

- Charities, NGOs and organizations receiving donations
- Politically exposed persons (PEP): Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country eg.: Senior politicians, Heads of States of Government, senior government, /judicial/military/officials.
- Clients who have defaulted in the past, have suspicious background and do not have any financial status.
- Companies offering foreign exchange
- 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 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.

- Clients against whom regulatory actions have been taken
- Clients against whom Regulatory Proceedings are pending.

All transaction of Clients identified as High Risk Category should be put to counter measures. These measures may include further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of transactions and applying enhanced due diligence.

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.

We must exercise additional due diligence in case of the “**Clients of Special Category**” (CSC) which include but not limited to:-

- Non resident clients
- High networth clients ( i.e the clients having networth exceeding 20 Lakhs and doing the intra day trading volume of more than 2 Crore and daily delivery volume more than Rs 20 Lakhs)
- Trust, Charities, NGOs and organizations receiving donations
- Companies having close family shareholdings or beneficial ownership
- Politically exposed persons (PEP) of foreign origin
- 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)
- Companies offering foreign exchange offerings
- 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.
- Non face to face clients
- Clients with dubious reputation as per public information available etc.
- Such Other persons who as per our independent judgment may be classified as CSC.

In case we have reasons to believe that any of our existing / potential customer is a politically exposed person (PEP) we must exercise due diligence, to ascertain whether the customer is a politically exposed person (PEP), which would include seeking additional information from clients and accessing publicly available information etc.

The dealing staff must obtain senior management’s prior approval for establishing business relationships with Politically Exposed Persons. In case an existing customer is subsequently found to be, or subsequently becomes a PEP, dealing staff must obtain senior management’s approval to continue the business relationship.

We must take reasonable measures to verify source of funds of clients identified as PEP.

The client should be identified by using reliable sources including documents / information and we should obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

The information should be adequate enough to satisfy competent authorities (regulatory /

enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the Guidelines. Each original document should be seen prior to acceptance of a copy.

Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority.

While accepting a client the underlying objective should be to follow the requirements enshrined in the PML Act, 2002 SEBI Act, 1992 and Regulations, directives and circulars issued there under so that we are aware of the clients on whose behalf we are dealing.

The risk profile also depends on trading pattern, payment pattern, financial status and background of the client. IMSPL shall put in place system of periodical review of risk categorization of accounts and the need for applying enhanced due diligence measures in case of higher risk perception on a client. For High Risk Clients, categorization should be carried out at least once in a six month while for Medium and Low Risk Clients, categorization frequency should be once in a year

### **3. Customer Identification Procedure (CIP)**

- i. Customer identification means identifying the person and verifying his/her identity by using reliable, independent source documents, data or information. The dealers need to obtain sufficient information necessary to establish, to their satisfaction, the identity of each new customer, whether regular or occasional, and the purpose of the intended nature of brokering relationship. Being satisfied means that the dealer is able to satisfy the competent authorities that due diligence was observed based on the risk profile of the customer in compliance of the extant guidelines in place. Besides risk perception, the nature of information/documents required would also depend on the type of customer (individual, corporate, etc). For customers that are natural persons, the dealers shall obtain sufficient identification data to verify the identity of the customer, his address/location, and also his recent photograph. For customers that are legal persons or entities, the dealers shall (i) verify the legal status of the legal person/entity through proper and relevant documents (ii) verify that any person purporting to act on behalf of the legal person/entity is so authorized and identify and verify the identity of that person (iii) understand the ownership and control structure of the customer and determine who are the natural persons who ultimately control the legal person. Customer Identification requirements in respect of a few typical cases, especially, legal persons requiring an extra element of caution are given in Annexure I for the guidance of dealers.
- ii. Pan No must be verified from Income Tax Web Site
- iii. If the dealer decides to accept such accounts in terms of the Customer Acceptance Policy, the dealer shall take reasonable measures to identify the beneficial owner(s) and verify his/her/their identity in a manner so that it is satisfied that it knows who the beneficial owner(s) is/are.
- iv. Identifying beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted.

#### **I. 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, IMSL shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:



- a. 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.
- b. In cases where there exists doubt under clause above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

- c. Where no natural person is identified under clauses (a) or (b) above, the identity of the relevant natural person who holds the position of senior managing official.

## II. For client which is a trust:

Where the client is a trust, IMSL 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.

## III. Exemption in case of listed companies:

Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it will not be necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

## IV. Applicability for foreign investors

While dealing with foreign investors, IMSL will be guided by the clarifications issued vide SEBI circulars CIR/MIRSD/11/2012 dated September 5, 2012 and CIR/ MIRSD/ 07/ 2013 dated September 12, 2013, for the purpose of identification of beneficial ownership of the client.

## V. Monitor of compliance

The compliance of the aforementioned provision on identification of beneficial ownership shall be monitored by the Board of Directors of IMSL.

#### **4. Monitoring Of Transactions**

- Scrutinize unusually large transactions like, clients having traded in scrip/shares of a company for a quantity of 20,000 or more in a single day and volume in that scrip of that client is 25% or more of the total volume in that scrip of the Exchange.
- Check trade log for indication of negotiated trades (if any)
- Check for any relation of the client with the company / directors / promoters.
- Check previous trading pattern of the clients in that particular scrip.
- Scrutinize bulk deal transactions by sample check. A 'bulk' deal constitutes transaction in a scrip (on each Exchange) where total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the Exchange
- Select randomly few clients and pick their few transactions and scrutinize to check whether they are of suspicious nature or not.
- If substantial increase in turnover in a dormant account is found, should be brought into the notice of the senior management. Review balances and trading in the dormant accounts. Be vigilant on the movement of credit balances of the dormant account.
- Analysis is carried out by RMT to identify clients with huge and regular losses and are still placing trades/orders. Identify the Sources of funds in such cases.
- Analysis be also carried out in respect of disproportionate profit/ loss booked by a client trading in "F&O" segment vis-à-vis the value of the contract in illiquid scrips/ derivatives
- Suspicious transactions to include 'transactions integrally connected' as well as 'transactions remotely connected or related'
- RMS department should monitor the trading activity of the client and exercise due diligence to ensure that the trading activity of the client is not disproportionate to the financial status and the track record of the client.
- Payments department should ensure that payment received from the client is being received in time and through the bank account the details of which are given by the client in KYC form and the payment through cash / bearer demand drafts should not be entertained.

We shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities within the intermediary.

#### **Parameters for analyzing the transactions:**

- Analysis of top clients in terms of turnover
- Analysis of top client in terms of increase in turnover
- Matched trades (where the buy and sell clients are with the same broker)
- Analysis of trades in stocks less than Rs.10/- and beyond a specific quantity
- Client concentration in particular scrip or select scrips
- Analysis of trades in illiquid counter (illiquidity can be with reference to the average volume in the scrip over the last 3 months below a particular level)
- Analysis of NRI/Foreign clients/institutional trades especially w.r.t. payment patterns
- Analysis of client payments in DD, Pay order, cash etc.

#### **Role of Internal Audit**

This Policy will be reviewed regularly by the Internal Audit Head for its effectiveness since the person reviewing the policy should be different from the person framing the policy.

#### **Cash Transactions**

All are requested not to accept cash from the clients whether against obligations or as margin

for purchase of securities or otherwise. All payments shall be received from the clients strictly by account payee crossed cheques drawn in favour of Integrated Master Securities (P) Limited. The same is also required as per SEBI circular no. SMD/ED/IR/3/23321 dated November 18, 1993 and SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003.

**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.

### **Risk Management Team**

Risk Management Team (RMT) gives exposure to clients based on margin available in the system and clean exposure to selected clients based on recommendations of the Business Managers. It is also the duty of RMT to validate such exposures with the financial details provided by the client in KYC forms. **Where there is a trading activity of the client, which is not commensurate with the financial details declared by the client, it should be analyzed and referred to the Principal Officer with reasons of suspicion.**

### **Suspicious Transactions**

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.

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
- 

### **Reasons for Suspicious:**

#### i. Identity of Client

- False identification documents
- Identification documents which could not be verified within reasonable time
- Non-face to face client
- Doubt over the real beneficiary of the account.
- Accounts opened with names very close to other established business entities

#### ii. Suspicious Background

- Suspicious background or links with known criminals

#### iii. 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

#### iv. 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

v. Nature of Transactions

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Source of funds are doubtful
- Appears to be case of insider trading
- Investment proceeds transferred to a third party
- Transactions reflect likely market manipulations
- Suspicious off market transactions

vi. 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 clients apparent financial standing
- Inconsistency in the payment pattern by client
- Block deal which is not at market price or prices appear to be artificially inflated/deflated.

**Reporting to FIU IND**

**For Suspicious Transactions Reporting**

In terms of the PMLA rules, brokers and sub-brokers are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU- IND) 6<sup>th</sup> Floor, Hotel Samarat, Chanakyapuri, New Delhi - 110021. This will typically be in cases where we know, suspect, or have reason to suspect:

- the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any the transaction reporting requirement,
- the transaction is designed, whether through structuring or otherwise, to evade the any requirements of PMLA Act and Rules framed thereof
- the transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and we know, after examining the background, possible purpose of the transaction and other facts, of no reasonable explanation for the transaction, or
- the transaction involves the use of the firm to facilitate criminal activity.

We will not base our decision on whether to file a STR solely on whether the transaction falls above a set threshold. We will file a STR and notify law enforcement of all transactions that raise an identifiable suspicion of criminal, terrorist, or corrupt activities.

All STRs will be reported quarterly to the Board of Directors, with a clear reminder of the need to maintain the confidentiality of the STRs

We will not notify any person involved in the transaction that the transaction has been reported, except as permitted by the PMLA Act and Rules thereof.

**AML Record Keeping**

**i. STR Maintenance and Confidentiality**

We will hold STRs and any supporting documentation confidential. We will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a STR. We will refuse any requests for STR information and

immediately tell FIU IND of any such request we receive. We will segregate STR filings and copies of supporting documentation from other firm books and records to avoid disclosing STR filings. Our Principal Officer will handle all requests or other requests for STRs.

**ii. Responsibility for AML Records and SAR Filing**

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

**iii. Records Required**

As part of our AML program, our firm will create and maintain STRs and CTRs and relevant documentation on customer identity and verification. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of five years from the date of transactions between the client and intermediary.

“Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.”

*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.

**Formulate/Review/Training on the Internal Policy and Procedure To All Staff/Sub-Brokers/Authorised Person**

- This internal policy and procedure on “The Prevention of Money Laundering Act, 2002” should be brought to the notice of all employees.
- All sub-brokers shall be intimated on the applicable provisions of The Prevention of Money Laundering Act, 2002 and the reporting mechanism.
- Staff training and implementing specific procedures for customer identification and retaining internal records of transactions.
- The Internal Policy should be placed before the Head and if any changes in the policy are warranted, the revised policy should be placed before the Head for review and approval
- We shall have adequate screening procedures in place to ensure high standards when hiring employees, having regard to the risk of money laundering and terrorist financing and the size of the business, we ensure that all the employees taking up such key positions are suitable and competent to perform their duties.
- Participation of all the Key Employees in the Seminars conducted by various Regulatory bodies from time to time, so that the members of the staff are adequately trained in AML and CFT procedures.
- All the Circulars issued by various Regulatory bodies including that of PMLA, are circulated to all the staff.

**Policy for Recruitment of personnel**

The Recruiting staffs are instructed to cross check all the references and should take adequate safeguard to establish the authenticity and genuineness of the persons before recruiting. The following documents must be obtained:

- Photographs
- Proof of address
- Identity proof
- Proof of Educational Qualification
- References

**Retention of records**

Records pertaining to active clients and staff details collected for recruitment shall be kept safely.

Further Company has a policy to retain all records relating to PMLA provision for at least a period of 5 years for transaction of clients.

“Records evidencing the identity of our clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period five years after and the business relationship with clients has ended or the account has been closed, whichever is later.” (Amended as per sub-clause 8.1 & 8.2 of Part II of Circular No. CIR/MIRSD/1/2014 dated 12<sup>th</sup> March, 2014, regarding maintenance of records pertaining to transactions of clients) we have also retained the statutory and regulatory compliance relating records and co-operate with law enforcement authorities with timely disclosure of information.

**Statement**

IMSL will conduct its business in conformity with the highest ethical standards in India and will adhere to all laws and regulations pertaining to intermediaries.

By order of the Board of Directors of  
**Integrated Master Securities Pvt. Ltd.**

Sd/-  
Compliance Officer

## **ADDENDUM TO POLICIES AND PROCEDURE FOR PREVENTION OF MONEY LAUNDERING (As per the requirements of the PMLA Act 2002)**

In addition to the policies and procedures of the company in respect of PMLA which have been issued, certain matters require further clarification and attention:

### **Procedure for freezing of funds, financial assets or economic resource or related to service**

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated August 27, 2009 detailing the procedure for the implementation of Section 51A of the UAPA.

The obligations to be followed by intermediaries to ensure the effective and expeditious implementation of said Order has been issued vide SEBI Circular ref. no: ISD/AML/CIR-2/2009 dated October 23, 2009, which needs to be complied with scrupulously.

The procedure for freezing the assets of a client, both in the Stock Broking Segment and the Depository segment are outlined:

Primarily it is the responsibility of every person to follow and carry out the instructions issued by the competent authority. The freezing/attachment of any assets like credit balance or securities in the demat account and securities that are to be received on account of purchases, has to be in accordance with a written order from the Competent Authority. On receipt of such a direction, the designated director (or in his absence the Principal Officer) will immediately ensure suspension of the accounts of the named person as per the direction stated in the order.

**Broking Segment:** Suspension of UCC and information to all terminal operators. Also check if any purchases are still to be received.

**Depository Segment:** Freeze order to prevent outward transactions.

The release can be done only after receipt of written Release Order from the Relevant.

### **Procedure for employee hiring and training.**

Since the business of Stock Broking and Depository are both extremely confidential in nature, it is of prime importance that the prospective employee bears good character and high integrity. Reference from previous employer(s) as far as possible and also reference to our known person for verification and recommendation should invariably be ascertained. There should not be the slightest doubt in the person's past record of any unacceptable conduct. The SEBI and other websites should also be checked for their banned lists.

All staff member are required to read the Circulars, literature and other information issued by the Regulatory Authorities like SEBI, the exchanges, the Depositories from time to time and keep themselves updated. These circulars are provided and it is important that all staff read and discuss any doubts, suggestions that may arise. In fact the company welcomes all ideas and suggestions on this subject. The staff members are encouraged to attend seminars and other educational meetings to learn update and broaden their understanding of the PML Act in letter and spirit. There would be differing requirements for the staff depending on their functions.

The focus and attention should be accordingly programmed for the front end staff and back office so that they are familiar with the risk management in transacting and induction of new clients. Compliance and application of the obligations and requirements consistently.

Our training will include at a minimum: how to identify red flags and signs of money

laundering that arise during the course of employee's duties; what to do once the risk is identified; what employees roles are in the company's compliance efforts and how to perform them, the company's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

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.

### **AML Record Keeping**

#### **i. STR Maintenance and Confidentiality**

We will hold STRs and any supporting documentation confidential. We will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a STR. We will refuse any requests for STR information and immediately tell FIU IND of any such request we receive. We will segregate STR filings and copies of supporting documentation from other firm books and records to avoid disclosing STR filings. Our Principal Officer will handle all requests or other requests for STRs.

#### **ii. Responsibility for AML Records and SAR Filing**

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

#### **iii. Records Required**

As part of our AML program, our firm will create and maintain STRs and CTRs and relevant documentation on customer identity and verification. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of five years from the date of transactions between the client and intermediary.

“Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.”

#### **iv. Investor Education**

Implementation of AML/CFT measures requires back office and trading staff to demand certain information from investors which may be of personal nature or which have hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. this can sometimes lead to raising of questions by the customers with regard to the motive and purpose of collecting such information. There is, therefore, a need for the back office and trading staff to sensitize their customers about these requirements as the ones emanating from AML and CFT framework. The back office and trading staff should prepare specific literature/pamphlets etc. so as to educate the customer of the objectives of the MAL/CFT programme.

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

The company does not outsource any activities to third party and hence the client Due Diligence Process is carried out by its own employees.

- i. Registered intermediaries may rely on a reference for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such reference shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.



- ii. Such reliance shall be subject to the conditions that are specified in Rule 9(2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, it is clarified that the registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

### **INVESTORS EDUCATION**

Intermediaries should to sensitize their clients about the requirements under AML and CFT framework.

Our esteemed client's may please note that implementation of KYC procedures requires Integrated Master Securities (P) Limited to request for certain information from its client's, which may be of personal nature or which has hitherto never been called for. However, clients may note that request for such additional information is in their own interest.

Request for such additional information, may sometimes lead to a lot of questioning by the client as to the motive and purpose of collecting such information. Under such circumstances, team members are requested to contact the Principal Officer and arrange for a communication with such clients.

We request our esteemed clients/prospective clients to help us in adhering to the KYC procedures, in your own interest.

### **REVISION HISTORY**

| <b>Date of Change</b> | <b>Summary of Change</b>  |
|-----------------------|---|
| 30.08.2014            | Updated and converted to new format   |
| 31.03.2015            | Updated the Policy in respect to Reliance on a reference for carrying out CDD, record keeping requirement and procedure for freezing of funds, financial assets or economic resource or related to service. |
| 02.11.2015            | Policy reviewed by Board –No Changes  |
| 30.06.2016            | Policy reviewed and updated by the Board  |
| 18.05.2017            | Policy reviewed and updated by the Board  |
| 19.03.2018            | Policy reviewed and updated by the Board  |
| 31.08.2018            | Updated the Policy in respect to Reliance on the SEBI Master Circulars Nos. SEBI/HO/MIRSD/DOP1/CIR/P/2018/87 dated June 01, 2018 and SEBI/HO/MIRSD/DOS3/CIR/P/2018/104 dated July 04, 2018.                 |
| 30.07.2019            | Policy reviewed and updated by the Board  |
| 25.09.2020            | Policy reviewed and updated by the Board  |