

VERACITY FINANCIAL SERVICES PVT LTD

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POLICY AND PROCEDURES ON ANTI-MONEY LAUNDERING MEASURES

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1. BACKGROUND

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July 2005 and it provides for Anti-money Laundering and Anti-terrorist Financing measures to be taken in India and the rules framed there under provides guidance on the practical implementation of the provisions laid down in the Act. The Director appointed by Financial Intelligence Unit-INDIA (FIU-IND) has been conferred with exclusive and concurrent powers under relevant sections of the Act to implement its provisions. The Act imposes an obligation on banking companies, financial institutions and intermediaries associated with the securities market and registered with the Securities and Exchange Board of India (SEBI) under section 12 of SEBI Act, 1992. The stock brokers fall under the category of intermediaries under section 12 of SEBI Act, 1992, and hence the provisions of PMLA are also applicable to all the stock brokers. Establishment of Anti-money Laundering programs by Market Intermediaries are one of the central recommendations of the Financial Action Task Force (FATF).

SEBI has issued necessary directives from time to time vide its circulars covering issues related to Know Your client (KYC) norms, Anti Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT). This policy document is based on the SEBI's master circular on PMLA bearing reference no. ISD/AML/CIR-1/2010 dated February 12, 2010 and subsequent circular bearing reference no.CIR/ISD/AML/2/2010 dated June 14, 2010, which consolidates requirements/obligations to be fulfilled by all the registered intermediaries. This policy will be subject to changes in order to incorporate further directives that SEBI may give vide its circulars on PMLA, from time to time.

2. ABOUT MONEY-LAUNDERING

- **What is money laundering?**

Money Laundering refers to conversion of money illegally obtained to make it appear as if it originated from a legitimate source. Money laundering is being employed by launderers worldwide to conceal criminal activity associated with it such as drugs / arms trafficking, terrorism and extortion. All crimes that produce a financial benefit give rise to money laundering.

- **How does money laundering affect business?**

The integrity of the banking and financial services marketplace depends heavily on the perception that it functions within a framework of high legal, professional and ethical standards. A reputation for integrity is the one of the most valuable assets of a financial institution.

If funds from criminal activity can be easily processed through a particular institution – either because its employees or directors have been bribed or because the institution turns a blind eye to the criminal nature of such funds – the institution could be drawn into active complicity with criminals and become part of the criminal network itself. Evidence of such complicity will have a damaging effect on the attitudes of other financial intermediaries and of regulatory authorities, as well as ordinary customers.

As for the potential negative macroeconomic consequences of unchecked money laundering, one can cite inexplicable changes in money demand, prudential risks to bank soundness, contamination effects on legal financial transactions and increased volatility of international capital flows and exchange rates due to unanticipated cross-border asset transfers. Also, as it rewards corruption and crime, successful money laundering damages the integrity of the entire society and undermines democracy and the rule of the law.

- **What is the connection with society at large?**

The possible social and political costs of money laundering, if left unchecked or dealt with ineffectively, are serious. Organized crime can infiltrate financial institutions, acquire control of large sectors of the economy through investment, or offer bribes to public officials and indeed governments.

The economic and political influence of criminal organizations can weaken the social fabric, collective ethical standards, and ultimately the democratic institutions of society. In countries transitioning to democratic systems, this criminal influence can undermine the transition. Most fundamentally, money laundering is inextricably linked to the underlying criminal activity that generated it. Laundering enables criminal activity to continue.

3. OBJECTIVES

The objectives of this policy are:

- To have a proper Customer Due Diligence process before registering clients.
- To monitor and report suspicious transactions.
- To discourage and identify money laundering or terrorist financing activities.
- To take adequate and appropriate measures to follow the spirit of the PMLA.
- Staff Members' awareness and vigilance to guard against money laundering and terrorist financing is developed.

4. FINANCIAL INTELLIGENCE UNIT (FIU)-INDIA

The Government of India has set up FINANCIAL INTELLIGENCE UNIT (FIU) - INDIA on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by Finance Minister.

FIU-IND has been established as the central national Agency responsible for receiving, processing, analyzing and disseminating information related to suspect financial transactions. FIU-IND is also responsible for co-coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

5. ANTI MONEY LAUNDERING PROGRAM (AML)

The objective of having an AML Program is to have in place adequate policy, practice and procedure that help to prevent money-laundering activities. Such procedures would include the following:

- Appointment of Principal Officer.
- Client Due Diligence is the main part of the policy and includes following:
 - ✓ Client Acceptance Policy
 - ✓ Client Identification Procedure
 - ✓ Categorization of Clients

- Transaction monitoring to identify & report Suspicious Transactions (STR)
- Record keeping & retention of records
- Co-operating with law enforcement agencies in their efforts to trace the money laundering transactions and persons involved in such activities
- On-going training to the employees to ensure strict adherence to Customer Due diligence requirements
- Imparting investor education
- Reports to Financial Intelligence Unit-India (FIU-IND)

These procedures and standards would assist in knowing and understanding the trading activities of its existing and prospective clients and to prevent VERACITY Financial Services (India) Pvt Ltd from being used as a medium, intentionally or unintentionally for carrying out money laundering activities. The chapters ahead detail the AML program adopted by the company.

6. APPOINTMENT OF PRINCIPAL OFFICER

Veracity Financial Services (India) Pvt Ltd has appointed Mr. Manan Brahmhatt (compliance officer) as the principal officer under the provisions of PMLA and has intimated his name and contact details to FIU-IND.

- RESPONSIBILITIES OF PRINCIPAL OFFICER:

The principal officer ensures that:

- ✓ The PMLA Guidelines and the Board approved PMLA policy is implemented effectively by the company.
- ✓ The identification and assessment of potentially suspicious transactions are done on the regular basis.
- ✓ The Company reports the suspicious transactions to the concerned authorities within the specific time as per the PMLA policy.
- ✓ The Company is regularly updated regarding any changes/additions/modifications in PMLA provisions.
- ✓ The Company responds promptly to any request for information, including KYC related information, made by the regulators, FIU- IND and other statutory authorities. Any other responsibilities assigned by Managing Director or any other official authorized by Managing Director with respect to the implementation of PMLA guidelines issued by SEBI from time to time.

7. CLIENT DUE DILIGENCE

7.1 CLIENT ACCEPTANCE PROCEDURE:

Considering the potential threat of usage of the financial services by a money launderer, it is essential to make reasonable efforts to determine the true identity of clients. The Company has put in place effective procedures to obtain requisite details for proper identification of new customers.

- ALL KYC Documentations and Procedures are followed at the time of account opening and no account is opened where VFSPL is unable to apply appropriate CDD measures/KYC policies. This is applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non genuine or there is perceived non cooperation of the client in providing full and complete information.
- The submission of all documents required under this policy is prerequisite for account opening for all clients. Incomplete application including incomplete documentation is rejected. VFSPL follows the industry standard for implementing client identification procedure.
- The authorized official /employees of VFSPL personally verify the photograph of the client affixed on the Account Opening Form (AOF) and the proof of identity documents with the person concerned. A stamp of “Identity Verified in Person” is affixed (as a proof of In Person Verification) on the AOF against the photograph of the client & on the proof of identity documents. The authorized official of the VFSPL who has done in person verification and verified the documents with original also signs on the AOF & ID proof.
- Each original document is seen prior to acceptance of a copy. Stamp of “documents verified with originals” is affixed along with the signature of the authorized person.
- In case of any discrepancy or non-provision of information by the client, VFSPL seeks necessary clarification from the applicant and activate the account only when the discrepancy is resolved or the deficiency is fulfilled. For e.g. Cases where names mentioned on the AOF and that on the PAN Card do not match etc.

- ✓ Verify the customer's identity using reliable, independent source documents, data or information by following procedure:
- ✓ The PAN Card details is verified with the name(s) appearing on the website of the Income Tax Department, <http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp?pAction=Post>. In case the name(s) do not match or the PAN Card details are not present in the PAN Card database, VFSPL seeks necessary clarification from the applicant(s) and activate the account only when the discrepancy is resolved.
- ✓ The Company maintains list of the person who have been debarred by SEBI and updates the list on the regular basis and ensures that no client's application is accepted if the name of such client falls in the list of debarred person maintained by VFSPL.
- ✓ Precaution is taken as far as possible 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 provided appropriate information is available to identify a person based on PAN number/address/any other appropriate information is available to VFSPL from websites generally known for such purpose/information provided by SEBI/BSE/NSE/CDSL.
- ✓ As per guidance provided by SEBI/ BSE/CDSL/NSE, VFSPL puts in place necessary procedures to determine whether their existing/potential client is a politically exposed person (PEP) of foreign origin. Such procedures include seeking additional information from clients, accessing publicly available information etc. as per guidance provided by SEBI/ BSE /NSE/CDSL.
- As per guidance provided by SEBI/ BSE /NSE/CDSL, VFSPL obtains sufficient information from the clients in order to identify person who beneficially owns and controls accounts.
- Precaution is taken that no account is opened in a fictitious / benami name or on an anonymous basis.

- VFSPL categorizes its clients into low, medium and high risk as per the Client categorization procedure adopted by VFSPL from time to time. Clients are categorized at the time of account opening with VFSPL based on recommendation made by the Branch Manager/ Relationship Manager/ Authorized Person who introduce the client, information provided by the Client in KYC, information available in public domain, etc. Clients of special category as stated in the SEBI circular are closely monitored unless the client is found to be of low/ medium risk depending upon information about the client collected through KYC, etc.
- The applicant is required to disclose his / her financial status & occupation details as required by PMLA. In case of Non Individual clients like, corporate, Trust, Partnership firms, etc. last 2 years balance sheet is obtained.

VFSPL takes reasonable measures to verify the sources of funds as well as wealth of the clients and ensures that they are routed through proper banking channels. VFSPL takes reasonable steps to ensure that funds are received from a client through his bank account registered with VFSPL and payment to the client is made through 'Account Payee' cheque and/ or direct credit to the client bank account registered with VFSPL. VFSPL neither accepts cash from its clients nor gives cash to its clients. As per SEBI directive, VFSPL gets banker's certificate whenever a client gives demand draft.

7.2 CLIENT IDENTIFICATION PROCESS:

The following precautions are taken by VFSPL in order to ascertain that accounts are not misused by the clients or by any third parties for money laundering activities:

- VFSPL obtains sufficient information about the client and identify actual beneficiary of transactions or on whose behalf transactions are conducted.
- Verify client's identity
- VFSPL registers clients as per BSE /NSE/CDSL guidelines and it has developed appropriate reporting system to monitor client's trades.
- VFSPL periodically updates all documents, data or information of all clients and beneficial owners collected under CDD process provided the client provides the information.
- VFSPL ensures that maker-checker facility is in place for all its operation as a risk management measure as well as to increase efficiency. In case of mismatch of

signature/s on PAN and the AOF, VFSPL asks for an alternate proof of identity bearing client's signature as put on AOF or bank verification of the signature.

- In case a new client is Politically Exposed Person (PEP) or a new client is a relative of PEP then such client activation is done only after getting prior approval of Compliance Officer. Compliance Officer's approval is also be taken when a existing client become PEP at later stage.

7.2 CATEGORIZATION OF CLIENTS:

VFSPL accepts the clients based on the risk they are likely to pose. For this purpose, VFSPL categorizes the clients under low risk, medium risk and high risk category based on appropriate Customer Due Diligence process.

LOW RISK:

Low risk clients are those who are likely to pose low or nil risk as per the PMLA policy. Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. They can be following:

- Salaried Individuals.
- Corporate which are providing financial details of last two years and identity of the beneficial owner is disclosed.
- Government employees and government owned companies.
- HNI's who have respectable social and financial payments.
- Businessman whose identity and source of wealth is easily identified and who is complying with maximum KYC disclosures.
- Clients who does not fall in the above mentioned points and who provide maximum information as per KYC and exhibits transparency
- Clients which have been introduced by brokers/branch managers and they have known them personally and have faith in their genuineness.

MEDIUM RISK:

Customers that are likely to pose medium risk to VFSPL may be categorized as medium risk such as:

- Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.

- Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
- Clients delegating authority of operation of their trading & beneficial accounts to any of their immediate family members.
- Students and House wives Accounts
- Clients who have not given the nature of business or nature of business are lending, investment, finance, credit etc.

HIGH RISK:

- Entities into foreign exchange business.
- High Networth individuals whose identity and source of wealth is difficult to identify.
- Trusts, charities, NGOs and organizations receiving donations
- Politically Exposed Persons (PEPs)
- Those with dubious reputation as per public information available, etc.
- Clients in high risk countries as announced by appropriate authority from time to time.
- Loss making Non- Individual clients or if reserves and surplus balance is less than Rs. 5 lac.
- Clients against whom any action has been taken by SEBI/Stock Exchange or any other regulatory authority.
- Corporate / Partnership Firms / any other entities with track record of less than 2 years
- Corporate clients not disclosing the identity, address of Directors, not giving financial statements.
- Clients residing in highly sensitive areas. For example, naxalite regions, areas where dealing in narcotic drugs, immoral traffic, corruption, etc is highly predominant. This includes person residing in UAE, Kashmir (India), Leh-Ladakh, Pakistan, Kuwait, Iran & Iraq, Bangladesh.
- Client having bank account with countries where secrecy of the account is maintained.

INDICATIVE RESPONSIBILITIES OF SUPPORT FUNCTIONS

The roles and responsibilities of support functions / departments in implementing the policies and procedures relating to Money Laundering measures have been specified below:

ROLE OF ACCOUNT OPENING DEPARTMENT

Any new individual client account to be compared with the list of –Banned Client List|| maintained by the Account Opening Team and through www.watchoutinvestors.com If it is a non -individual client account then names of the directors / partners / promoters / karta / authorized signatories / key management personnel should be compared.

KYC of Trust, Charity organizations, students should be opened only with prior approval of compliance department.

Account Opening Team should not process any new account without obtaining all the details and documents required for opening a new client account. The exceptions, if any, has to be signed off by Compliance Department.

Checklist for account opening is enclosed herewith as **Annexure IV**

KYC and all other client related documentation by any mode should be kept for 10 years from the date of cessation of the transaction between the client and intermediary.

RISK MANAGEMENT DEPARTMENT

The RMS team to specify internal threshold limits for each class of client accounts and pay special attention to the transaction, which exceeds these limits.

RMS to periodically check the financial details of the client accounts on large margin calls or client accounts with large account equity.

FINANCE AND ACCOUNTS

Report any Cash Transactions to Compliance Department.

Third Party Receipts / Payments are not allowed to be accepted / made under any circumstances. If there is doubt, Principal Officer should be consulted and his advise needs to be obtained and followed.

Records to be kept for 10 years from the date of cessation of the transaction between the client and intermediary.

NETWORKS / TECHNOLOGY

To evolve an internal mechanism for proper maintenance and preservation of records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities.

Maintain and preserve the records for the **period of ten years** from the date of cessation of the transaction between the client and intermediary.

Hardware and technical requirements for preparing CTR and STR.

Data files and data structures for preparing CTR and STR

8. RECRUITMENT & TRAINING OF EMPLOYEES

VFSPSPL ensures adequate screening procedures at the time of hiring its staff. It also ensures that the employees dealing with PMLA requirements are suitable and competent to perform their duties.

VFSPSPL also conducts PMLA awareness program for its existing employees to ensure that they are aware of their obligations under the provisions of PMLA. VFSPSPL ensures that the new staff recruited by them is also given initial PMLA awareness training.

The Principal Officer also imparts periodical refresher training to the staff to keep them updated on new developments and to communicate any changes in the policies, procedures etc.

VFSPSPL sends periodic e-mails to the Staff/Authorized persons/Branch Manager for creating awareness on PMLA.

9. INVESTOR EDUCATION

VFSPSPL has uploaded its PMLA policy on its website for creating awareness amongst the investors.

10. RECORD KEEPING & RETENTION OF RECORDS

PMLA stipulates that all relevant documents like AOF and their supporting documents and all instructions for operating the account given by Client or its duly registered Power of Attorney should be maintained at least for a minimum period of 5/10 years after the account is closed. In cases where the records relate to on-going investigations or transactions that have been a subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

In view of this, VFSPL maintains the records in terms of the provisions of PMLA. The retention period is modified on receiving appropriate instructions from any regulatory authority like SEBI, FIU-IND or any other statutory authority.

11. MONITORING OF TRANSACTIONS

VFSPL pays special attention to all complex, unusually large transactions and all unusual patterns which have no apparent economic or visible lawful purpose.

The Compliance Department ensures adherence to the KYC policies and procedures. Internal Auditors specifically check and verify the application of KYC procedures and comment on the lapses if any observed in this regard. All staff members are provided training on Anti Money Laundering. The focus of training is different for frontline staff, compliance staff and staff dealing with new customers.

The Compliance Department randomly examines a selection of transactions /clients and comment whether any suspicious transactions are done or not. While monitoring the transactions, VFSPL shifts the clients from one category to another depending upon the risk perceived by VFSPL.

12. IDENTIFYING OF SUSPICIOUS TRANSACTIONS

VFSPL maintains records of debits and credits of transactions through various services to the clients, as per their specific instructions.

The Rules notified under the PMLA defines a “suspicious transaction” as a transaction whether or not made in cash which, to a person acting in good faith-

- ✓ Give rise to reasonable ground of suspicion that it may involve proceeds of crime
- ✓ Appears to be made in circumstances of unusual or unjustified complexity; or
- ✓ Appears to have no economic rationale or bonafide purpose.

Indicative List of suspicious transactions for Broking Account are:

- False Identification documents submitted by the client at time of account opening.
- Doubt over the real beneficiary of the account.
- Suspicious background or links with known criminals.
- Unusual activity compared with past transactions.
- Sudden activity in dormant accounts.
- Unexplained transfer among multiple accounts without any rationale/reason.
- Unusual high turnover of transactions in comparison with disclosed income.

13. REPORTING OF SUSPICIOUS TRANSACTIONS:

The concerned department's staff i.e. Client Relation/Settlement/Compliance monitor s all transactions executed by clients and reports to the Principal Officer any transaction that appears to be of suspicious nature. Also system generates file of suspicious transactions based on few set parameters and informs CR staff to download such data for further investigation. The Principal Officer analyzes and examines such data and then decides if any transaction listed therein warrants a closer inspection or not. He maintains the records of all such data received from authority and records the action taken against any client for suspicious transactions.

In case the Principal Officer comes across any transaction that appear to be of suspicious nature, he also submits the report of such transactions directly to The Director, FIU-IND in the prescribed format, within seven working days of establishment of suspicion.

VFSPL does not put any restriction on operation in the accounts of any client where an STR has been made and the same has been reported to FIU-IND. VFSPL is also prohibited from disclosing the same to the client for whom the STRs have been reported to FIU-IND. However, in exceptional circumstances consent is not to be given to continue to operate the account, and transaction may be suspended.

14. REVIEW OF POLICY

The aforesaid AML policy is reviewed periodically with regard to testing its adequacy to meet the compliance requirements of PMLA 2002. The Principal Officer is the authority to give directions to undertake additions, changes, modifications etc. as directed by SEBI/ FIU-IND.