

PREVENTION OF MONEY LAUNDERING POLICY (PMLA)

1. INTRODUCTION

1. Money Laundering may be defined as cleansing of dirty money obtained from legitimate or illegitimate activities including drug trafficking, terrorism, organized crime, fraud and many other crimes with the objective of hiding its source and rendering it in legally usable form. It is any act or attempted act to conceal or disguise the identity of illegally obtained proceeds so that they appear to have originated from legitimate sources. The process of money laundering involves creating a web of financial transactions so as to hide the origin of and true nature of these funds.
2. Successful money laundering activity spawning yet more crime exists at a scale that can and does have a distorting and disruptive effect on economies, marketplaces, the integrity of jurisdictions, market forces, democracies etc. It is in short a cancer, existing for one purpose only, to make crime and illegal activity worthwhile.
3. The general assembly of United States adopted the political declaration and global program of action in 1990 in its worldwide drive against money laundering and also enjoined upon member states to adopt legislation and program against laundering on a national level. India enacted the Prevention of Money Laundering Act, 2002. (Hereinafter referred to as 'Act'). The Prevention of Money Laundering Act, 2002 has come into effect from 1st July, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July, 2005 by the Department of Revenue, Ministry of Finance, and Government of India.
4. Securities and Exchange Board of India (hereinafter referred to as SEBI) vide its Circular Ref No.: ISD/CIR/RR/AML/1/06 dated January 18, 2006 laid down broad guidelines on Anti Money Laundering Standards. As per the Circular, all the intermediaries registered with SEBI under Section 12 of the SEBI Act were advised to ensure that a proper policy framework on anti-money laundering measures was put in place. This was essentially in conformity with the Prevention of Money Laundering Act, 2002 and the Rules framed there under by SEBI.
5. IDBI Capital Market Services Limited (hereinafter referred to as IDBI Capital) being one such intermediary had in accordance with the above, in the 55th Board Meeting Held on 7th September, 2006 adopted a policy framework on anti-money laundering measures.
6. In the light of Circulars issued by National Stock Exchange of India Ltd (hereinafter referred to as "NSE") and Circulars issued by Bombay Stock Exchange Ltd. (hereinafter referred to as "BSE"), in continuation to the new circular of Securities and Exchange

Board of India (hereinafter referred to as “SEBI”) SEBI Circular No. ISD/AML/CIR-1/2009 dated September 01, 2009 has issued additional requirements to be fulfilled and clarifications with regard to existing requirements mentioned in the Master Circular on Anti Money Laundering (AML) issued vide SEBI circular no. ISD/AML/CIR-1/2008 dated December 19, 2008.

7. Money Laundering in India

With the growing financial sector, India is vulnerable to money laundering activities. Some common sources of illegal proceeds in India are narcotics trafficking, illegal trade in gems, smuggling, corruption and income tax evasion. Large portions of illegal proceeds are laundered through the alternative remittance system called “hawala”. Under this system, individuals transfer funds from one country to another or from one state to another, often without the actual movement of currency.

8. Prevention of Money Laundering Act, 2002

To combat money-laundering activities, the Government of India enacted the Prevention of Money Laundering Act, 2002 (hereinafter referred to as the “Act”) on January 17, 2003.

The basic objective of the Act is three fold, viz.:

- To prevent, combat and control money laundering.
- To confiscate and seize the property obtained from the laundered money.
- To deal with any other issue connected with money laundering in India.

2. OUR PREVENTION OF MONEY LAUNDERING POLICY .

1. The purpose of this policy is to set out the prevention of money laundering commitments and obligations for IDBI Capital Market Services Limited (hereinafter referred to as ‘Company’)
 2. This policy is based on the provision of the “Prevention of Money Laundering Act, 2002 and circular issued by SEBI and exchanges thereof”.
 3. This internal policy sets out and establishes governing principles, broad guidelines and standards to be adopted by the Companies in order to protect the Companies from being used by any person to launder money.
 4. Policy objectives
- To protect *the Company* from being used for money laundering

- To follow thorough “Know Your Customer” (KYC) policies and procedures in the day-to-day business.
- To take appropriate action, once suspicious activities is detected, and make report to designated authorities in accordance with applicable law / laid down procedures.
 - To comply with applicable laws as well as norms adopted internationally with reference to Money Laundering.

3. THE MONEY LAUNDERING PROCESS .

3.1) Money can be obtained illegally from various criminal activities like drug trafficking, terrorism, organized crime and fraud. As criminals attempt to conceal the true origin and ownership of the proceeds of their criminal activities and provide a legitimate cover for their source of income they usually follow three stages:

1. **Placement** - This is where the criminal proceeds are first-injected into the system. It is also the stage where those who are educated, briefed and alert to the process of money laundering, have the best chance of detecting what is happening and are thus best able to thwart and disrupt the process at the outset. At this stage, very often larger amounts of money are divided and distributed into smaller amounts to avoid suspicion and then paid into a series of bank accounts, arose to purchase securities, or life policies or other assets, sometimes many kinds of assets, all to achieve the prime purpose of being able to inject the tainted money or value into the legitimate mainstream financial/business system. Eg: A criminal having huge crime proceeds in form of cash, can deposit this cash in bank accounts maintained with difference banks, in the name of his relatives, friends and associates, in small amounts.
2. **Layering** - After the injection has taken place and the tainted money or value has entered and become mixed up in the main mass of money or value in the financial system, it is spun around different accounts, different names, different ownerships, plus different instruments and investments. All these movements are designed to disguise the origins of the money or value and thus confuse those who might be attempting to trace the money or value back to the root, criminal source. Facilitated by the birth of electronic funds transfer technology the fast movement of funds through multiple jurisdictions often with different laws, creates major problems for investigators of identification, access and ultimately achieving successful prosecutions.
3. **Integration**- Placing the laundered proceeds back into the economy in such a way that they re-enter the financial system as apparently legitimate funds. Integration means the reinvestment of those funds in an apparently legitimate

business so that no suspicion of its origin remains and to give the appearance of legitimizing the proceeds

3.2) Section 3 of the Prevention of Money Laundering Act, 2002 defines the offences or laundering. In terms, of this section whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of an offence of money laundering.

3.3) The term proceeds of crime have been defined under Section 2(u) of the Act viz:

“Any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property.”

The said section broadly states that if a person is involved in the process of projecting proceeds of crime as untainted property then he shall be guilty of money laundering, for indulging in the said process of the following three elements / activities shall play a very important role:

Possession or ownership of the proceeds of crime or property acquired from proceeds of crime, which is being reflected as untainted property.

Transactions relating to proceeds of crime like converting its form

3.4) Concealment of the original transaction and/or creating ghost transactions from concealing actual transactions.

E.g. Possessing Benami Property, Unexplained cash credits, unexplained expenditure, bogus or fictitious accounts, unexplained investments.

4 .APPLICABILITY

4.1) The Prevention of Money Laundering Policy applies to IDBI Capital Market Services Ltd.

In terms of rules framed under the Act, inter alia, every intermediary shall

1. Maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of single transaction or a series of transactions integrally connected to each other, and where such series of transactions take place within a month;

2. Furnish information of transactions referred to in Clause (a) to the Director within such time as may be prescribed;
3. Verify and maintain the records of the identity of all its Clients, in such a manner as may be prescribed

As per provision of section 2(n) of the Act, term “Intermediary” means: “ 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 (15 of 1992);

Further in terms of rules made under the Act, all intermediaries shall maintain a record of:

1. all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
2. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month;
3. all cash transaction where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
4. all suspicious transactions whether or not made in cash;
5. identity and current address or addresses including permanent address or addresses of the Client, the nature of business of the Client and his financial status; Provided that where it is not possible to verify the identity of the Client at the time of opening an account or executing any transaction, the banking company, financial institution and intermediary, as the case may be, shall verify the identity of the Client within a reasonable time after the account has been opened or the transaction has been executed.

Under these circumstances the Act, applies to IDBI Capital Market Services Ltd.

4.2) Suspicious Transactions

Suspicious transactions involve funds derived from illegal activities or is intended or conducted in order to hide or disguise funds or assets derived from illegal activities (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any law or regulation or to

avoid any transaction reporting requirement under the law; The transaction has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the financial institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction

4.3) Criteria in relation to defining

It is difficult to define exactly what constitutes suspicious transactions and as such given below is a list of circumstances where transactions may be considered to be suspicious in nature. This list is only inclusive and not exhaustive. Whether a particular transaction is actually suspicious or not will depend on the background, details of the transactions and other facts and circumstances.

1. Complex /unusually large transactions/ patterns which appear to have no economic purpose.
2. Client having suspicious background or links with known criminals
3. Clients whose identity verification seems difficult.

For Example:

- i. False identification documents
 - ii. Identification documents which could not be verified within reasonable time
 - iii. Non face to face Client
 - iv. Doubt over the real beneficiary of the account
 - v. Accounts opened with names very close to other established business entities.
4. Client appears not to co-operate.
5. Use of different accounts by Client alternatively.
6. Sudden activity in dormant accounts
7. Multiple accounts
 - i. Large number of account having a common account holder, authorized signatory with no rationale
 - ii. Unexplained transfers between multiple accounts with no rationale
8. Asset management services for clients where the sources of funds is not clear or not in keeping with the clients' apparent standing/business activity
9. Substantial increase in business without apparent cause (Unusual activity compared to past transactions)
10. Activity materially inconsistent with what would be expected from declared business
11. Inconsistency with clients apparent financial standing
12. Any account used for circular trading

13. Unusual transactions by Clients of Special Category (CSCs) and business undertaken by shell corporations, offshore banks/financial services, businesses reported to be in the nature of export-import of small items
14. A transaction which gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime.
15. A transaction which appears to be a case of insider trading
16. Transactions reflect likely market manipulations
17. Suspicious off market transactions
18. Value of transaction just under the reporting threshold amount in an apparent attempt to avoid reporting
19. Inconsistency in the payment pattern by the client
20. Trading activity in account of high risk clients based on their profile, business pattern and industry segment
21. Accounts based as 'passed through'. Where no transfer of ownership of securities or trading is occurred in the account and the account is being used only for funds transfers / layering purposes.
22. Large deals at prices away from the market
23. Suspicious off market transactions
24. Purchases made in one client's account and later on transferred to a third party through off market transactions through DP Accounts;
25. Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;

4) Implementation of the above requirements for our activities

The Company is into the following activities:

(i) Institutional Broking

Institutional Broking is being carried out only with reputed institutions, banks and mutual funds. There is no complex or unusual transactions with no apparent economic or visible or lawful purpose. Therefore, there is no need for a policy for anti-money laundering in institutional broking. All trades are custodial trades and all payments are through proper banking channels.

(ii) Retail Broking

We are following KYC norms before enlisting clients. We are also ensuring that all trades are settled through the banking channels and that all shares are electronically transferred to the beneficial owner through settlement systems of the exchanges. However, in order to ensure monitoring of large transactions, a report on all the Clients whose trade turnovers in Cash Market Segment are above Rs.10 lakh per month are

reported on monthly basis by Compliance Department to the Principal Officer of the Company. The Compliance department would examine the patterns to determine whether there is a prima facie evidence of money laundering activity and ask concerned departments to call for any information that may be deemed necessary. The back office would provide the data to the Compliance department on monthly basis by 1st of the following month. The Compliance Department of the Company will prepare the report on the same and submit to the Principal Officer of the Company under PMLA, 2002.

(iii) Funds Management

We manage funds of reputed Provident and Pension Funds which are in turn invested in Central Government, State Government and bonds of PSUs/ FIs through proper banking channels. There is no need for anti-money laundering policy.

(iv) Depository for equity shares, etc.

Depository activity involves transfer of shares and shares have monetary value, As such, depository activity has been brought within the purview of the PMLA Policy.

We follow KYC norms for opening accounts with our depository. We are also ensuring that all trades are settled through the banking channels and that all shares are electronically transferred to the beneficial owner through settlement systems of the exchanges. In certain cases, the shares are transferred from one account to another by way of Physical Delivery Instruction Slips. However, in order to monitor transactions in dormant accounts, alerts would be generated and immediately reported to the Risk Management and the Compliance Department.

Depository department is already having a separate PMLA policy with regard to their operations, which will also be applicable to them in addition to this policy. But this policy will supersede with the policy of Depository.

(v) Investment Banking

There is no transaction that involves transfer of money by the Clients with our assistance. Hence there is no need for anti money laundering policy.