

**SWASTIKA INVESTMART LIMITED**

**48, Jaora Compound, MYH Road, Indore-452001**

**PREVENTION OF MONEY LAUNDERING ACT 2002**

**POLICY & PROCEDURE GUIDELINES**

*For Private Circulation*

# **Swastika Investmart Limited**

## **POLICIES AND PROCEDURE FOR PREVENTION OF MONEY LAUNDERING**

**(as per the requirements of the PMLA Act 2002)**

**(reviewed on 13.08.2018)**

### **1. Company Policy**

It is the policy of the Company to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.

### **2. Principal Officer Designation and Duties**

The Company has designated **Smt. Smita Chaskar**, Senior officer as the Principal Officer for its Anti-Money Laundering Program, with full responsibility for the Company's AML program is qualified by experience, knowledge and training. The duties of the Principal Officer will include monitoring the Company's compliance with AML obligations and overseeing communication and training for employees. The Principal Officer will also ensure that proper AML records are kept. When warranted, the Principal Officer will ensure filing of necessary reports with the Financial Intelligence Unit (FIU – IND)

The Company has provided the FIU with contact information for the Principal Officer, including name, title, mailing address, e-mail address, telephone number and facsimile number. The Company will promptly notify FIU of any change to this information.

### **3. Appointment of Designated Director**

As part of our AML program, in reference to SEBI circular no. CIR/MIRSD/1/2014 dated March 12, 2014 regarding Anti Money Laundering / Countering the Financing of Terrorism (AML/CFT) obligations of Securities Market Intermediaries, Mr. Sunil Nyati has been appointed as the Designated Director.

### **4. Customer Identification and Verification**

At the time of opening an account or executing any transaction with it, the Company will verify and maintain the record of 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 as under

<b>Constitution of Client</b>	<b>Proof of Identity</b>	<b>Proof of Address</b>	<b>Others</b>
Individual	PAN Card Voter Id Card Driving License Passport MAPIN UID Card	Passport Bank Pass Book/Statement Ration Card Driving License Telephone Bill Electricity Bill	N.A.
Company	PAN Card Certificate of incorporation Memorandum and Articles of Association Resolution of Board of Directors	As above applicable	Proof of Identity and address of the Directors/Others authorized to trade on behalf of the Company
Partnership Company	PAN Card Registration certificate Partnership deed	As above applicable	Proof of Identity of the Partners/Others authorized to trade on behalf of the Company

Trust	PAN Card Registration certificate Trust deed	As above applicable	Proof of Identity of the Trustees/ others authorized to trade on behalf of the trust
AOP/ BOI	PAN Card Resolution of the managing body Documents to collectively establish the legal existence of such an AOP/ BOI	As above applicable	Proof of Identity of the Persons authorized to trade on behalf of the AOP/ BOI

1. If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, our Company will not open the new account.
2. PAN shall be a mandatory requirement for account opening. All PAN Cards received will be verified from the Income Tax website before the account is opened.
3. The Company will maintain records of all identification information for five years after the account has been closed
4. As per the AML policy the company has a proper system to identify the name of entities mentioned in the list given by United Nation's Security Council resolutions (UNSCRs) which can be accessed in the United Nations website at <http://www.un.org/sc/committees/1267/consolist.html> before opening of any of the accounts.
5. It will be required that senior management approval is obtained for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, The Company shall obtain senior management approval to continue the business relationship.

## **5. Risk Categorization of Clients**

We 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 payments, etc.

In order to achieve this objective, all clients should be classified in the following category:

Category A – Low Risk

Category B – Medium Risk

Category C – High Risk

**Category A** clients are those pose low or nil risk. They are good corporate/HNIs who have a respectable social and financial standing. These are the clients who make payment on time and take delivery of shares.

**Category B** clients are those who are intra-day clients or speculative clients. These are the clients who maintain running account with SCPL.

**Category C** clients are those who have defaulted in the past, have suspicious background, do not have any financial status, etc.

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

Parameters for risk categorization like income/net-worth details, source of income( salaried or business class), risk appetite, expected volume of turnover, current debts of the client etc., shall be ascertained at the time of the client's account opening to assist in deciding his/her risk category as low, medium and high. For instance, a salaried person who just wishes to trade in the cash market will be categorized under low risk and HNIs, PEPs and all other Clients of Special Category will be categorized under the High Risk Category.

## **6 Client Due Diligence**

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 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.
- In case of clients with past background in trading and whose KRAs are already registered, the company will rely on the data received from such KRA Agencies for Client Due Diligence.
- Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures/ KYC policies.
- The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down.

We conduct periodic due diligence and scrutiny of client's transaction and accounts to ensure that transactions are being conducted in knowledge, to find out the risk profile, source of funds, etc. At regular interval, ongoing due diligence and scrutiny needs to be conducted i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the Organization's knowledge of the client, its business and risk profile, taking into account, where necessary, the customer's source of funds.

The Customer Due Diligence Process includes four specific parameters:

Policy for Acceptance of Clients

Client Identification Procedure

Monitoring of transactions

Tracking and reporting Suspicious Transactions

## **7. Identification of Clients of Special Category (CSC)**

Company will monitor and identify following clients of Special Category in the back office for additional consideration.

- Nonresident clients
- High net worth clients (HNI),
- Trust, Charities, NGOs and organizations receiving donations
- Companies having close family shareholdings or beneficial ownership
- Politically exposed persons (PEP).
- 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.
- Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority within the intermediary

The above mentioned client will require a special attention while registering them by calling additional information in addition to statutory requirement as deems fit. This list is only illustrative and the Company will exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

## **8 Acceptance of Clients:**

While accepting any new client following procedures / checks must be adhered to namely;

- a. Accept client whom we are able to meet personally. Either the client should visit the office/branch or concerned official may visit the client at his residence / office address to get the necessary documents filled in and signed. Preferably accept clients who live within the jurisdiction of the branch.
- b. Obtain complete information from the client. It should be ensured that the initial forms taken by the clients are filled in completely. All photocopies submitted by the client are checked against original documents without any exception. All supporting documents as specified by Securities and Exchange Board of India (SEBI) and Exchanges are obtained and verified.
- c. Check whether the client's identify matches 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/regulatory agency worldwide.

d. We should be careful while accepting clients of special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed Persons (PEP), persons of foreign origin, companies having closed share holding/ownership, companies dealing in foreign currency, clients in high risk countries, non face to face clients.

e. For non-individual customers as part of the due diligence measures, sufficient information must be obtained for identification of ultimate natural person(s) who beneficially own or control such entity. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party should be identified and verified using client identification and verification procedures as early as possible. The beneficial owner is the natural person or persons who ultimately own, control, or influence a client and/or persons on whose behalf a transaction(s) is/are being conducted. It includes persons who exercise ultimate effective control over a legal person or arrangement.

f. Ensure that no account is being opened in a fictitious / benami name or on an anonymous basis.

g. Client's account should be opened only on receipt of mandatory information along with authentic supporting documents as per the regulatory guidelines. Do not open the accounts where the client refuses to provide information/documents and we should have sufficient reason to reject the client towards this reluctance

## **9. Maintenance of records**

Company shall have a system of maintaining proper record of all transactions including records of all transactions prescribed under Rule 3 of the Rules, as mentioned below:

- all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;

- 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;
- all cash transactions 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;
- all suspicious transactions whether or not made in cash. 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 circumstances of unusual or unjustified complexity; or
  - appears to have no economic rationale or bonafide purpose; or
  - gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism

The records shall contain the following information:

- 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."

SIL shall take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, SIL shall maintain for such number of years as would be required under the PMLA 2002 and rules made thereunder from the date of transaction between SIL and the client.

#### **10. Monitoring Accounts For Suspicious Activity**

The Company will monitor through the automated means of Back Office Software / online surveillance software for unusual size, volume, pattern or type of transactions by monitoring following type of transactions:-

1. Trades in the illiquid Securities as provided by the exchange.
2. Daily client wise turnover and traded securities.
3. Daily M2M and/or Profit & loss to the client for verifying any pattern.
4. Trading pattern of the client in Particular script.
5. Cross Trades within Swastika Group.
6. All off market transfer through our DP of Rs.5 Lacs or more and/or any consistently off market transaction in any particular Demat Account.

For non automated monitoring, the following kinds of activities are to be mentioned as Red Flags and reported to the Principal Officer.

1. The customer exhibits unusual concern about the Company's compliance with government reporting requirements and the Company's AML policies (particularly concerning his or her identity, type of business and assets), or is reluctant or refuses to reveal any information concerning business activities, or furnishes unusual or suspicious identification or business documents.
2. The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business or investment strategy.
3. The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
4. Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
5. The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.

6. The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs.
7. The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.
8. The customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.
9. The customer attempts to make frequent or large deposits of currency, insists on dealing only in cash, or asks for exemptions from the Company's policies relating to the deposit of cash.
10. The customer engages in transactions involving cash or cash equivalents or other monetary instruments that appear to be structured to avoid the Rs.10,00,000 government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds.
11. For no apparent reason, the customer insists for multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers.
12. The customer engages in excessive journal entries between unrelated accounts without any apparent business purpose.
13. The customer requests that a transaction be processed to avoid the Company's normal documentation requirements.
14. The customer, for no apparent reason or in conjunction with other red flags, engages in transactions involving certain types of securities, such as Z group and T group stocks, which although legitimate, have been used in connection with fraudulent schemes and

money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.)

15. The customer's account shows an unexplained high level of account activity
16. The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent purpose.
17. The customer's account has inflows of funds or other assets well beyond the known income or resources of the customer.

When a member of the Company detects any red flag he or she will escalate the same to the Principal Officer for further investigation

Broad categories of reason for suspicion and examples of suspicious transactions for an intermediary are indicated as under:

#### 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

#### Suspicious Background

- Suspicious background or links with known criminals

#### 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

### 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

### 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

### 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

## 11. Reporting to FIU IND

### For Cash Transaction Reporting

- All dealing in Cash that requiring reporting to the FIU IND will be done in the CTR format and in the matter and at intervals as prescribed by the FIU IND

### For Suspicious Transactions Reporting

We will make a note of Suspicion Transaction that have not been explained to the satisfaction of the Principal Officer and thereafter report the same to the FIU IND and the required deadlines. 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 Company 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.

## **12. Power of Central Government**

Section 51 A of 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 27th 2009 detailing the procedure for implementation of Section 51A of UAPA.

Under the aforementioned section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the directions of the individuals, or entities entered in the schedule to the order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or the entities, entered in the schedule to the order, or any other person engaged in or suspected to be engaged in terrorism. The obligation to be followed by intermediaries to ensure 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.

As per our AML policy and in accordance with order issued by SEBI, when Central Government will issue order, we can freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of or at the direction of the individuals or entities to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of such persons engaged in or suspected to be engaged in terrorism.

## **13. AML Record Keeping**

- a. 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 Company books and records to avoid disclosing STR filings. Our Principal Officer will handle all requests or other requests for STRs.

b. 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

c. Records Required

As part of our AML program, our Company will create and maintain STRs and CTRs and relevant documentation on customer identity and verification. We will maintain STRs and their accompanying documentation for at least ten years.

#### **14. Investor & Employee Training Programs**

We will develop ongoing employee training under the leadership of the Principal Officer. The training will occur on at least on quarterly basis. It will be based on our Company's size, its customer base, and its resources.

As per the AML policy, the PMLA guidelines will be circulated and other specific literature /pamphlets etc. so as to educate the clients/ investors about objectives, regulation & provision of AML Act on regular basis. The training will include, at a minimum: how to identify red flags and signs of money laundering that arise during the course of the employees' 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.

The Company will develop in-house training within the Company, or contract for it. Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos.

The Company will review its operations to see if certain employees, such as those in compliance, margin, and corporate security, require any kind of specialized additional training. The written procedures of the company will be updated to reflect any such changes.

## **15. Hiring of Employees**

The Company has a separate Human Resource Department, which will run a back ground check of the prospective employee to be hired with their previous employers and other recruitment agencies to get as much knowledge as possible on his/her behavior and activities.

## **16. Program to Test AML Program**

### **a. Staffing**

The testing of our AML program will be performed by the Statutory Auditors of the company

### **b. Evaluation and Reporting**

After we have completed the testing, the Auditor staff will report its findings to the Board of Directors. We will address each of the resulting recommendations.

## **17. Monitoring Employee Conduct and Accounts**

We will subject employee accounts to the same AML procedures as customer accounts, under the supervision of the Principal Officer. We will also review the AML performance of

supervisors, as part of their annual performance review. The Principal Officer's accounts will be reviewed by the Board of Directors

**18. Confidential Reporting of AML Non-Compliance**

Employees will report any violations of the Company's AML compliance program to the Principal Officer, unless the violations implicate the Principal/Compliance Officer, in which case the employee shall report to the Chairman of the Board, Mr. Sunil Nyati, Managing Director. Such reports will be confidential, and the employee will suffer no retaliation for making them.

**19. Board of Directors Approval**

We have approved this AML program as reasonably designed to achieve and monitor our Company's ongoing compliance with the requirements of the PMLA and the implementing regulations under it.

**20. Review of AML Policy**

The aforesaid AML policy is reviewed on yearly basis or as and when any new circulars issued by the SEBI or relative exchanges, within one month of the same 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.

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