



Policy on Anti Money Laundering

Issue No	Issue Date
1.1	16/04/14

B D SHAH SECURITIES LIMITED

R-701, Rotunda, Apollo Street, Fort, Mumbai – 400057

POLICY ON ANTI MONEY LAUNDERING

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This manual is prepared as per Prevention of Money Laundering Act laid down by Financial Investigation Unit of The Ministry of Finance.

I hereby approve the Policy on Anti Money Laundering

For B D Shah Securities

Mitesh Bipin Shah

Director

Date:

Place:

Reviewed by Mr. Ashish Shah

Approved by Mr. Mitesh Shah

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1. Contents, Distribution, Amendments

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Distribution List

Sr. No.	Copy Type	COPY HOLDER	Location
		Designation	
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2	Soft read only copy on shared folder	All internal employees	Vile Parle

Amendments Made till 01 / 1 / 2009

No.	Nature of Amendment	Reason for amendment	Date of Amendment
1	Induction of point D	SEBI Master Circular CIR/ISD/AML/3/2010	16-04-2014
2			
3			
4			
5			

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1. The Objective

- a. Money laundering has now become one of the major concerns of international financial community. Money Laundering is not just an attempt to disguise money derived from illegal activities. Rather, money laundering is involvement in any transaction or series of transactions that seek to conceal or disguise the nature or source of proceeds derived from illegal activities, including drug trafficking, terrorism, organized crime, fraud and many other crimes.
- b. "Know Your Customer" (KYC) is the guiding principle behind the Anti-Money Laundering (AML) measures. It incorporates the "Know Your Customer" Standards & "Anti Money Laundering" Measures, hereinafter to be referred as "KYC Standards" and "AML Measures". The objective of is to "have in place adequate policies, practices and procedures that promote high ethical and professional standards and prevent the Company from being used, intentionally or unintentionally, by criminal elements". KYC Standards and AML Measures would enable the Company to know/ understand its customers, the beneficial owners in case of non-individual entities, the principals behind customers who are acting as agents and their financial dealings better which in turn will help the Company to manage its risks prudently.

2. SEBI Mandate

SEBI has mandated that KYC policy should be designed to combat Money Laundering and should cover the following

- (a) Communication of group policies relating to prevention of money laundering and terrorist financing to all management and relevant staff that handle account information, securities transactions, money and customer records etc. whether in branches, departments or subsidiaries;
- (b) Customer acceptance policy and customer due diligence measures, including requirements for proper identification;
- (c) Maintenance of records;
- (d) Compliance with relevant statutory and regulatory requirements;
- (e) Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and
- (f) Role of internal audit or compliance function to ensure compliance with policies, procedures, and controls relating to prevention of money laundering and terrorist

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financing, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff of their responsibilities in this regard.

3. Guidelines of this KYC Policy lies in the below mentioned Procedures which are related to the overall ‘Client Due Diligence Process’:

- I. Policy for acceptance of clients
- II. Procedure for identifying the clients
- III. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR)

Customer Due Diligence

The customer due diligence (“CDD”), measures comprise the following:

- (a) Obtaining sufficient information in order to identify persons who beneficially own or control securities account. 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 using client identification and verification procedures. 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 is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.
- (b) Verify the customer’s identity using reliable, independent source documents, data or information;
- (c) Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the customer and/or the person on whose behalf a transaction is being conducted;
- (d) Verify the identity of the beneficial owner of the customer and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c);
- (e) Understand the ownership and control structure of the customer;
- (f) Conduct ongoing due diligence and scrutiny, 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 registered intermediary’s knowledge of the customer, its business and risk profile, taking into account, where necessary, the customer’s source of funds; and
- (g) Registered intermediaries shall periodically update all documents, data or information of all customers and beneficial owners collected under the CDD process.

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I. Policy for acceptance of clients:

A) Features of Clients Acceptance Policy

To develop customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. The following safeguards are to be followed while accepting the clients:

- a) No account is opened in a fictitious / benami name or on an anonymous basis.
- b) Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters should enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of KYC profile.
- c) Documentation requirement and other information to be collected in respect of different classes of clients depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.
- d) Ensure that an account is not opened where it is unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided is suspected to be non genuine, perceived non cooperation of the client in providing full and complete information. Should not continue to do business with such a person and file a suspicious activity report. It should also evaluate whether there is suspicious trading in determining in whether to freeze or close the account. Should be cautious, to ensure that, it does not return securities of money that may be from suspicious trades. However, should consult the relevant authorities in determining what action it should take when it suspects suspicious trading.
- e) The circumstances under which the client is permitted to act on behalf of another person / entity should be clearly laid down. It should be specified in what manner the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. Further the rights and responsibilities of both the persons (i.e the agent- client registered with the intermediary, as well as the person on whose behalf the agent is acting should be clearly laid down). Adequate verification of a person's authority to act on behalf the customer should also be carried out.
- f) Necessary checks and balance to be put into place 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 .
- g) The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

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B) Risk-based Approach

It is generally recognized that certain customers may be of a higher or lower risk category depending on circumstances such as the customer’s background, type of business relationship or transaction etc. As such, apply each of the customers due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is to adopt an enhanced customer due diligence process for higher risk categories of customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with the risk-based approach, the type and amount of identification information and documents that should be obtained necessarily depend on the risk category of a particular customer.

Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

C) Clients of special category (CSC):

Such clients include the following.

- i. Non resident clients
- ii. High net-worth clients,
- iii. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations
- iv. Companies having close family shareholdings or beneficial ownership
- v. Politically Exposed Persons (PEP) are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent para 5.5 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs.
- vi. Companies offering foreign exchange offerings
- vii. 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. While dealing with clients in high risk countries where the existence/effectiveness of money laundering control is suspect, intermediaries apart from being guided by the financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org), shall also independently access and consider other publicly available information.
- viii. Non face to face clients
- ix. Clients with dubious reputation as per public information available etc.

The above mentioned list is only illustrative and the intermediary shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.



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II. Client identification procedure:

The ‘Know your Client’ (KYC) policy should clearly spell out the client identification procedure to be carried out at different stages i.e. while establishing the Broker – client relationship, while carrying out transactions for the client or when there arises doubts regarding the veracity or the adequacy of previously obtained client identification data.

- The client should be identified by using reliable sources including documents / information. Adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship should be obtained.
- The information should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed 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.
- SEBI has prescribed the minimum requirements relating to KYC for certain class of the registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, to frame own internal guidelines based on experience in dealing with clients and legal requirements as per the established practices. Further, continuous familiarity and follow-up where inconsistencies are noticed in the information provided should be maintained. The underlying principle should be to follow the principles enshrined in the PML Act, 2002 as well as the SEBI Act, 1992 so that there is awareness of the clients on whose behalf it is dealing.

Record Keeping

To ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PML Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

6.2 To maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

6.3 Should there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, retain the following information for the accounts of their customers in order to maintain a satisfactory audit trail:

- (a) the beneficial owner of the account;
- (b) the volume of the funds flowing through the account; and
- (c) for selected transactions:
 - the origin of the funds;
 - the form in which the funds were offered or withdrawn, e.g. cash, cheques, etc.;
 - the identity of the person undertaking the transaction;

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- the destination of the funds;
- the form of instruction and authority.

6.4 To ensure that all customer and transaction records and information are available on a timely basis to the competent investigating authorities. Where appropriate, they should consider retaining certain records, e.g. customer identification, account files, and business correspondence, for periods which may exceed that required under the SEBI Act, Rules and Regulations framed there-under PMLA 2002, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

Retention of Records

A) The following document retention terms should be observed:

(a) All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period prescribed under the relevant Act (PMLA, 2002 as well SEBI Act, 1992) and other legislations, Regulations or exchange bye-laws or circulars.

(b) Records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence should also be kept for the same period.

B) In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

III. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR)

A. Monitoring of transactions

1 Regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money Laundering procedures. This is possible only if the intermediary has an understanding of the normal activity of the client so that they can identify the deviant transactions / activities.

2. Intermediary should pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. The intermediary may specify internal threshold limits for each class of client accounts and pay special attention to the transaction which exceeds these limits.

3 The intermediary should ensure a record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate law authority. Suspicious transactions should also be regularly reported to the higher authorities / head of the department.

4 Further the compliance cell of the intermediary should randomly examine a selection of transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

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B. Suspicious Transaction Monitoring & Reporting

1 To ensure to take appropriate steps to enable suspicious transactions to be recognised and have appropriate procedures for reporting suspicious transactions. A list of circumstances which may be in the nature of suspicious transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

- a) Clients whose identity verification seems difficult or clients appears not to cooperate
- b) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
- c) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
- d) Substantial increases in business without apparent cause ;
- e) Unusually large cash deposits made by an individual or business;
- f) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- g) Transfer of investment proceeds to apparently unrelated third parties;
- h) Unusual transactions by CSCs and businesses undertaken by shell corporations, offshore banks /financial services, businesses reported to be in the nature of export- import of small items.

2 Any suspicion transaction should be immediately notified to the Money Laundering Control Officer or any other designated officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it should be ensured that there is continuity in dealing with the client as normal until told otherwise and the client should not be told of the report/suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken.

C. Designation of an officer for reporting of suspicious transactions

1 To ensure proper discharge of legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions.

2. The Principle Officer will be responsible for awareness and update of the Prevention of Money Laundering Act laid down by Financial Investigation Unit of The Ministry of Finance to all management and relevant staff that handle account information, securities transactions, money and customer records etc. whether in branches, departments or subsidiaries and Clients, from time to time in the form of updates on the website, Regular training programs and / or emails.

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D. Employees' Hiring/Employee's Training/ Investor Education

1. Employees Hiring

- i. To put in place adequate screening procedures while hiring employees.
- ii. To identify the key positions within the organization structures having regard to the risk of money laundering and terrorist financing and
- iii. To identify the size of business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

2. Employees Training

To conduct training sessions on AML and CFT procedures for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients with specific focus on the role of employment from time to time.

3. Investor Education

Proper write up should be prepared so as to educate the customers about the objectives of AML / CFT program.

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