

NAYSAA SECURITIES LTD.

PREVENTION OF ANTI – MONEY LAUNDERING POLICY

PART I

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01. Introduction

The Guidelines as outlined below provides a general background on the subjects of money laundering and terrorist financing summarizes the main provisions of the applicable anti-money laundering and anti-terrorist financing legislation in India and provides guidance on the practical implications of the Act. These Guidelines are intended for use by all employees and representatives of Naysaa. The Guidelines also sets out the steps that all employees of Naysaa and any of its representatives, are implementing to discourage and identify any money laundering or terrorist financing activities. The overriding principle is enable to satisfy them that the measures taken by them are adequate, appropriate and follows the spirit of these measures and the requirements as enshrined in the Prevention of Money Laundering Act, 2002. (PMLA) The relevance and usefulness of these Guidelines are kept under review and it may be necessary to issue amendments from time to time. It is recognized that a "one-size-fits-all" approach shall not be appropriate for the securities industry; and hence Naysaa after considering the specific nature of our business, type of clients, transactions etc. has implemented the suggested measures and procedures to ensure that they are effectively applied.

02. Back Ground

The PMLA came into effect from 1st July 2005. As per the provisions of the Act, Naysaa being registered intermediary is maintaining a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA and in these procedure document at appropriate place. Such transactions include:

- All cash transactions of the value of more than Rs 10 lakh or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been valued belowRs 10 lakh or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non monetary account such as demat account, security account maintained by the registered intermediary.

3. Policies and Procedures to Combat Money Laundering and Terrorist Financing

3.1 Essential Principles

These Directives have taken into account the requirements of the PMLA as applicable to Naysaa under Section 12 of the SEBI Act. Naysaa has considered carefully the specific nature of its business, organizational structure, type of client and transaction, etc. to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit of the suggested measures in Part II and the requirements as laid down in the PMLA.

3.2 Obligation to establish policies and procedures

- 3.2.1 Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing.
- 3.2.2 To be in compliance with these obligations, the senior management of Naysaa is fully committed to establish appropriate policies and procedures for the prevention of ML and TF and ensure their effectiveness and compliance with all relevant legal and regulatory requirements. Naysaa is:
 - (a) Issuing a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
 - (b) Ensuring that the content of these Directives are understood by all staff members;
 - (c) Regularly reviewing the policies and procedures on the prevention of ML and TF to ensure their effectiveness.

- (d) Adopting client acceptance policies and procedures which are sensitive to the risk of ML and TF;
 - (e) Undertaking client due diligence (“**CDD**”) measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;
 - (f) having a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and
 - (g) Developing staff members’ awareness and vigilance to guard against ML and TF.
- 3.1.1 Naysaa’s Policies and Procedures to Combat ML covers the following:
- (a) Communication of group policies relating to prevention of ML and TF to all management and relevant staff members.
 - (b) Client acceptance policy and client 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 functions to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF.

PART – II DETAILED DIRECTIVES

4. Written Anti Money Laundering Procedures

- 4.1 Naysaa has adopted written procedures to implement the anti money laundering provisions as envisaged under the PMLA. Such procedures include inter alia, the following three specific parameters which are related to the overall ‘**Client Due Diligence Process**’:
- (a) Policy for acceptance of clients
 - (b) Procedure for identifying the clients
 - (c) Transaction monitoring and reporting especially Suspicious Transactions Reporting (**STR**).

5. Client Due Diligence

5.1 Elements of Client Due Diligence

The CDD measures comprise the following:

- (a) Obtaining sufficient information in order to identify persons who beneficially own or control the securities account.
- (b) Verify the client’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 client and/or the person on whose behalf a transaction is being conducted;
- (d) Verify the identity of the beneficial owner of the client 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 client;
- (f) Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account to ensure that the transactions being conducted are consistent with the knowledge of the client, its business and risk profile, taking into account, where necessary, the client’s source of funds; and

5.2 Policy for Acceptance of clients

5.2.1 Naysaa has the following client acceptance policies and procedures:

- (a) No account is opened in a fictitious / benami name or on an anonymous basis.

- (b) Factors of risk perception of the client are clearly defined having regard to clients' location, nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of Know Your Client (**KYC**) profile.
- (c) Collection of Documentation requirements and other information in respect of different classes of clients depending on the perceived risk.
- (d) Naysaa ensures that Account is not opened where it is unable to apply appropriate CDD measures / KYC policies. This shall be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to Naysaa is suspected to be non genuine. We are captious to ensure that it does not return securities of money that may be from suspicious trades.
- (e) In circumstances under which the client is permitted to act on behalf of another person, the client has to give in writing specifying in what manner the account shall be operated, transaction limits for operation and other appropriate details. Further rights and responsibilities of both person i.e. agent-clients registered with Naysaa as well as the person on whose behalf the agent is acting shall be clearly laid down.
- (f) Before opening an account necessary checks and balance are put into place 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. We also take in writing an undertaking from the client in this regards. We are carrying out the following procedure to check whether the identity of the client does not match with any person who is not banned in any manner or having a criminal background :-

Whenever a prospective client comes for account opening first of all we take his pan card copy and check the same with the SEBI debarred list, with the IT Website and also check the name of the client with List of Terrorist individuals / organizations – under UNSCR 1267 (1999) and 1822(2008) on Taliban / Al -Qaida organisation. Before the account is opened we are also taking an undertaking from the client that he is not debarred or banned by any of the authorities. In the case of corporates we verify the Company details like directors, registered office address, etc. with the MCA website.

- (g) When there are suspicions of money laundering or financing of terrorism, the CDD process is been revisited.

5.3 Risk-based Approach

Clients have been categorized on various grounds like client's location (registered office address, correspondence addresses and other address if any applicable, nature of business activity, trading turnover etc and manner of making payment for transactions).

Clients are categorized in following three categories

5.3.1 Low risk clients

Include clients who has satisfied following criteria:

One who provides all documents at the time of account opening without any delay And

who is

- ✓ Resident of India;
- ✓ Proofs verified with originals;

- ✓ Provides income proof;
- ✓ Providing two or more references;
- ✓ No delegation of authority for operation of account;
- ✓ Always provide securities and funds in time;
- ✓ Places order within reasonable period of time;

5.3.2 Medium risk client

Clients who cannot be comfortably placed in neither in Low risk nor in high risk category.

5.3.3 High risk client

Includes all clients mentioned under Special category of clients and any client against whom any order is passed by regulatory authorities or any investigation is launched which is pending, any client against whom any regulatory order is passed for accessing market then such client will automatically be black listed and no further trading has been done for those accounts.

5.4 Clients of Special Category (CSC)

Such clients include the following

- a) Non resident clients
- b) High net worth clients,
- c) Trust, Charities, NGOs and organizations receiving donations
- d) Companies having close family shareholdings or beneficial ownership
- e) Politically exposed persons (PEP) of foreign origin
- f) Companies offering foreign exchange offerings
- g) 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.
- h) Non face to face clients
- i) Clients with dubious reputation as per public information available etc.

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

5.5 Client identification procedure:

- ✓ The 'Know your Client' (KYC) form is duly completed in all respects and are supported with all necessary documents. Not a single column is kept blank. If client has not provided information with regard to any column then his account should not be opened and the client is to be asked to complete the form along with supporting documentary evidence.
- ✓ The client is identified by using reliable sources including documents / information. The staff is obtaining adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
- ✓ The information received are adequate enough to satisfy competent authorities (regulatory / enforcement authorities) that the due diligence is observed by the staff in compliance with the Guidelines. At the time of accepting KYC form, copies of documents submitted are verified with original documents.

- ✓ To put in place appropriate risk management systems to determine whether the client or potential client or the beneficial owner of such client is a politically exposed person.
- ✓ Senior management approval is been taken for establishing business relationships with PEPs. Where a client has been accepted and found to be, or subsequently becomes PEP.
- ✓ Reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.
- ✓ Failure by prospective client to provide satisfactory evidence of identity is been noted and reported to the higher authority.

5.5.1 Taking into account the minimum requirements relating to KYC & the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, we have framed our own internal directives based on experience in dealing with our clients and legal requirements as per the established practices. Further, we also assure to conduct ongoing due diligence wherever we notice inconsistencies in the information provided. The underlying objective is to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued there under so that we are aware of the clients on whose behalf we are dealing.

5.5.2 Naysaa has formulated and implement a CIP which shall incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. PML Rules have recently been amended vide notification No. 13/2009 dated November 12, 2009 and which are adhered by Naysaa.

5.5.3 Naysaa has not available minimum threshold or exemption from obtaining the minimum information / documents from clients as stipulated in the PML Rules / SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients, irrespective of the amount of investment made by clients. Further no exemption available from carrying out CDD exists in respect of any category of clients.

6. Record Keeping

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

- All documents are preserved for **10 years** this includes books of accounts, agreements, duplicate copies of contract notes, recorded messages, order books;
- For active account documents like KYC, agreement, passports, PAN card copy, driving license, bank letter etc are preserved permanently;
- In case account is closed if it was inactive for X no. of years then documents are maintained for **5 years** from date of closure;
- For accounts, which are freezed on our own account or on receiving order from authorities, all documents are preserved until final disposition of case to the satisfaction of authorities.

- Maintaining records e.g. order slip or any piece of document, which in future can help in reconstruction of individual transaction.
- 6.2 All documents & records which 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 shall be maintained.
- 6.3 If there is any suspected drug related or other laundered money or terrorist property, we retain the following information for the accounts of clients in order to maintain a satisfactory audit trail to facilitate the investigating authorities:
- 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. cheques, demand drafts etc.
 - the identity of the person undertaking the transaction;
 - the destination of the funds;
 - the form of instruction and authority.
- 6.4 Naysaa ensures that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they should retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed thereunder PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.
- 6.5 More specifically, Naysaa has put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:
- i. all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
 - ii. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh;
 - iii. 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;
 - iv. all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

07. Information to be maintained

Naysaa has maintained and preserved the following information in respect of transactions referred to in Rule 3 of PML Rules:

- i. the nature of the transactions;
- ii. the amount of the transaction and the currency in which it is denominated;
- iii. the date on which the transaction was conducted; and
- iv. the parties to the transaction.

8. Retention of Records

8.1 Naysaa has taken appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule

3 of PML Rules are maintained and preserved for a period of ten years from the date of transactions between the client and Naysaa.

8.2 Naysaa has formulated and implemented the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. The records of the identity of clients are maintained and preserved for a period of ten years from the date of cessation of the transactions between the client and Naysaa.

8.3 Thus the following document retention terms are observed:

- a) All necessary records on transactions, both domestic and international, are maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.
- b) Records on client identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence are also be kept for the same period.

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

8.5 Providing audit trails to authorities for potential money laundering activities following information's are retained for reasonable period of time:-

- i. Beneficial owner of account
- ii. Volume of fund flowing through account
- iii. For selected transactions
 - a) The origin of funds;
 - b) Form in which fund was offered;
 - c) Form in which fund was withdrawn e.g. cash, cheques etc.
 - d) Identity of person taking transaction;
 - e) Destination of fund and securities;
 - f) Form of instruction and authority;

9. Monitoring of Transactions and Reporting

- Any transaction of retail clients of value exceeding 10 lacs are reported to compliance department if it's an irregular transaction.
- Cash transaction of value of Rs. 10 lacs
- Cash transaction aggregating to 10 lacs within a calendar month's time.
- Any other suspicious transaction whether made in cash or not.
- All documents, slips, recordings etc. related to any suspicious transactions are preserved as per record keeping policy.
- Compliance/Risk Department does random checking from transaction value of which exceeds 10 lacs on monthly basis and report its finding to management and if necessary to relevant authorities.
- Any transaction/ order, which arises the suspicion of any employee, is diligently and immediately informed to compliance/Risk department.

- List of black listed clients and suspicious clients is maintained for reference of employees. Whereas no trading is been taken for clients mentioned in black list, to trade for clients in suspicious list one is to be extra vigilant.
- All the persons who are debarred/warned by SEBI/Exchanges to access capital market are treated as black list clients or any client against whom firm has reported to authorities for alleged money laundering activities and matter is still pending before or order is given against client.
- An illustrative list is provided below for reference of employees as what could be a suspicious transaction or irregular transaction
 - a) If the size of order is not commensurate with client income level disclosed or if its more then his usual order size.
 - b) If the order is placed by dormant client i.e. order placed by client after a period of 1 year from his/her last transaction.
 - c) Any transaction, which does not make economic sense or is complex or unusually large, should be immediately brought to the notice of respective head of department and Compliance department.
 - d) Clients whose identity verification seems difficult or clients appear not to cooperate.
 - e) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
 - f) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
 - g) Substantial increases in business without apparent cause;
 - h) Unusually large cash deposits made by an individual or business;
 - i) Clients transferring large sums of money to or from overseas locations with instructions/re quest for payment in cash;
 - j) 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;
 - k) Requests to transfer money or securities to third parties with or without any known connection to our customers;
 - l) The transaction is not in keeping with the counterparty's normal activity;
 - m) The transaction is unusual, e.g., with respect to normal market size and frequency;
 - n) There is an unusual and unnecessary involvement of an intermediary;
 - o) The transaction is not settled in the normal manner, e.g., an offer to settle in cash or settlement by registration or delivery of securities to a third party;
 - p) Settlement is made by way of bearer securities from outside a recognized clearing system;
 - q) Cash movements in and out of an account within a short period of time.
- Any suspicious transaction is immediately notified to the Money Laundering Control Officer/Principal officer or any other designated officer within the firm.
- The notification is done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion.
- However, it is ensured that there is continuity in dealing with the client as normal until told otherwise and the client is been brought to the notice of the report/suspicion.
- In some cases transactions are aborted by clients on being asked to give some details or to provide documents. Further Naysaa has to report all such transaction in STR's, even if not completed by clients, irrespective of the amount of the transaction.

- In exceptional circumstances, consent may not be given to continue to operate the account, and transactions are suspended, in one or more jurisdictions concerned in the transaction, or other action taken.
- Clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards are also subject to appropriate counter measures.

10. List of Designated Individuals/Entities

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at <http://www.un.org/sc/committees/1267/consolists.shtml>. Naysaa has directed to ensure that accounts are not opened in the name of anyone whose name appears in said list and it shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list have to be immediately be intimated to SEBI and FIU-IND

11. Procedure for freezing of funds, financial assets or economic resources or related services

Naysaa is aware that Under section 51A of Unlawful Activities (Prevention) Act, 1967, 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 direction of the individuals or entities listed 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 entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism.

12. Reporting to Financial Intelligence Unit-India

- 12.1 In terms of the PML Rules, Naysaa is aware that it is required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:
 Director, FIU-IND,
 Financial Intelligence Unit-India,
 6th Floor, Hotel Samrat,
 Chanakyapuri,
 New Delhi-110021.
 Website: <http://fiuindia.gov.in>
- 12.2 Naysaa has gone through all the reporting requirements and formats which are divided into two parts - Manual Formats and Electronic Formats. Details of these formats are given in the documents (Cash Transaction Report- version 1.0and Suspicious Transactions Report version 1.0). These documents contain detailed directives on the compilation and manner/procedure of submission of the manual/electronic reports to FIU-IND. Naysaa, if not in a position to immediately file electronic reports, may file manual reports with FIU-IND as per the formats prescribed. Detailed instructions for filing all types of reports are given in the instructions part of the related formats, Naysaa shall adhere to the following:
 - a) The Cash Transaction Report (**CTR**) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month.
 - b) The Suspicious Transaction Report (**STR**) shall be submitted within 7 days of arriving at a conclusion that any transaction. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion.

- c) The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND;
 - d) Utmost confidentiality shall be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address.
 - e) No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported.
- 12.3 Naysaa shall not put any restrictions on operations in the accounts where an STR has been made. Naysaa and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level. It is clarified that the Naysaa, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

13. Designation of an officer for reporting of suspicious transactions

Principal Officer is responsible for reporting suspicious transactions to higher authorities Transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND.

Names, designation and addresses (including email addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-FIU.

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

14.1 Hiring of Employees

Naysaa has adequate screening procedures in place to ensure high standards when hiring employees; it identifies the key positions within the organization structures and ensures that the employees taking up such key positions are suitable and competent to perform their duties.

Further, no candidate is been selected who has ever been convicted of offence under Money Laundering Act or any other civil or criminal Act.

14.2 Employees' Training

Ongoing training of AML and CFT procedures is given to frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients.

14.3 Investors Education

Before account opening Naysaa demands certain information like documents evidencing source of funds/income tax returns/bank records etc. from investors which may be of personal nature for Implementation of AML/CFT measures. We educate the client about the importance of AML/CFT if he does not disclose any information which is required as per the client registration procedure.

