

ANTI MONEY LAUNDERING POLICY

Introduction

The Prevention of Money Laundering Act, 2002 has come into effect from 1st July 2005. As per the provision of the Act all the intermediaries registered under section 12 of the SEBI Act, 1992 shall have to maintain a record of all the transactions, the nature and value of which has been prescribed in the rules under PMLA. SEBI has also issued a circular no: ISD/QR/RR/AML/1/06 on Jan 18, 2006 to all intermediaries registered with SEBI under section 12 of the SEBI Act providing guidelines on Anti Money Laundering Standards.

This policy provides a detailed Account of the procedures and obligations to be followed to ensure compliance with issues related to **KNOW YOUR CLIENT (KYC) Norms, ANTI MONEY LAUNDERING (AML), CLIENT DUE DILIGENCE (CDD) and COMBATING FINANCING OF TERRORISM (CFT)**. Policy specifies the need for Additional disclosures to be made by the clients to address concerns of Money Laundering and Suspicious transactions undertaken by clients and reporting to **FINANCE INTELLIGENT UNIT (FIU-IND)**. These policies are applicable to both Branch and Head office Operations and are reviewed from time to time.

We, Eureka Stock & Share Broking Services Ltd., being registered with SEBI as Stock Broker shall maintain a record of all the transaction; the nature & value of which has been prescribed under the Prevention of Money Laundering Act. Such transactions include:

- All cash transactions of the value more than 10 lacs or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been valued 10 lacs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- All suspicious transactions (as defined under Rule 2 of the Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005) whether or not made in cash and including inter alia, credits or debits into from any non monetary accounts such as demat account , security account maintained by us.
- For the purpose of suspicious transactions reporting, apart from transactions integrally connected, transactions remotely connected or related are also to be considered.

Obligation under the Act

International initiatives taken to combat drug trafficking, terrorism and other organized and serious crimes have concluded that financial institutions including securities market intermediaries must establish procedures of internal control aimed at preventing and impending money laundering and terrorist financing. The said obligation on intermediaries has also been obligated under the Prevention of Money Laundering Act, 2002. In order to fulfill these requirements, there is also a need for registered intermediaries to have a system for identifying, monitoring and reporting suspected money laundering or terrorist financing transactions to the law enforcement authorities.

In light of the above, senior management of a registered intermediary should be fully committed to establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The Registered Intermediaries should:

- Issue a statement of policies and procedures, on a group basis where applicable, for dealing with money laundering and terrorist financing reflecting the current statutory and regulatory requirements.
- Ensure that the content of these Guidelines are understood by all staff members.
- Regularly review the policies and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness. Further in order to ensure effectiveness of policies and procedures, the person doing such a review should be different from the one who has framed such policies and procedures.
- Adopt customer acceptance policies and procedures which are sensitive to the risk of money Laundering and terrorist financing.
- Undertake customer due diligence (“CDD”) measures to an extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of customer, business relationship or transaction.
- And develop staff members’ awareness and vigilance to guard against money laundering and terrorist financing.

Policies and Procedures to Combat Money Launder and Terrorist Financing

1. Creation of Team :-

Rakesh Somani, Whole time Director of the company has been appointed as the Designated Director of the company on 29/03/2014 for PMLA related activities supervises the work of the Money Laundering team. He is also the management representative for getting the Act implemented as per requirement laid down by the government of India, under him a strong team headed by Vinoy Kumar Chiripal (Principle Officer of the company), works for the implementation of the act. The team consists of atleast one experienced officer form each division. The compliance division of the company acts as the data bank centre which collects data from all the division and depository analyzes the data and sent its report to the principle officer. The principle officer further analyzes the data and send a daily report to the management, which in turn based on the recommendation of the principle officer and the compliance division decides whether to report the suspicious transaction to the FIU or not.

Team members for PMLA consist of all the division as every division has a part to play for proper implementation of the Act. Work of the team is allotted as per their daily work profile. The Front office officer interviewing the client tries to collect as much as possible data in respect to background of the client, source of income of the client, experience of the client in the stock market, mode of operation of the account of the client and land mark if any in respect to address provided by the client etc. Send his report to the KYC division, Bases to the documents provided by the client, data received from the front office and geographical location the client, categorization of the client is done and the data is entered in the back office software, The trading division tracks the trades of the client and in event of any inconsistent trade sends an intimation to the compliance division. The fund pay in and payout division tracks the trend of the

client in respect of time taken by the client in respect of funds receivable/ payable from/to the client and in event of any inconsistency sends an intimation to the compliance division, The securities division tracks the trend of the client in respect of securities pay in and payout and sends an intimation to the compliance division in event of any inconsistency. The surveillance track the gross exposure of the client, the MTM loss of the client and in event of any inconsistency sends a report to the compliance division. The depository division track the DIS submitted by the client especially off market DIS and in event of any inconsistency send intimation to the compliance division. The compliance division based on the intimation received from the different division analyzes the data and sends its report to the Principle Officer.

2. Policy for acceptance of Clients:

Before creating policy for client acceptance, we must inform about the client structure in Eureka Stock & Share Broking Services Ltd. Eureka has a strong client base of more than 60,000 retail clients, and more than 15 Institutional client spread all over the country. Eureka has a strong network of around 250 registered sub broker and authorised persons. Therefore we have created our client acceptance policy considering the client base we have.

a) Sub broker & Authorized Person:

Eureka Stock should be professional and conservative while appointing a new Sub broker/ franchisee. The basic documents required from the person interested in becoming a Sub broker/ Authorized Person are:

- Bio data of the person,
- Declaration of past experience,
- Certificate of income,
- Details regarding existing client base,
- Details in respect of office and residence of the interested person,
- References,
- Plan of action in respect of client acquisition.

The branch co ordination team analyses the data collected from the interested person. The division visits the office and residence of the person and check on the exchange/ SEBI website for verification of the data provided by the person. Finally all the with details report of the branch co ordination team is forwarded to the management with recommendations. The management in turn verifies the data from their sources and if they find the data fit, call the interested person for an interview and final discussion for his appointment, all the required documentation is collected for applying for either Authorized Person of the exchanges or SEBI registered sub broker.

b) New Client:

- In person verification of each and every client is mandatory. Either the client should visit our office/ branch or the concerned officer should visit the client's place. And request the client to sign before the officer. Relevant stamp with proper signature of the officer is must for processing of the account.

Note: Now as SEBI has permitted In person verification by Sub Brokers and Authorised Persons, in few cases the same will be observed but the officer accepting the form should verify the identity of the client from his independent sources. The initial intend should be to do the in person verification by the employee of the company and not to depend on third party for the same.

- Verification of Proofs with original should be properly done to avoid any manipulation. Relevant stamp with proper signature of the officer is must for processing of the account.
- Cross verification of debarred entities from list available at SEBI WEB Site and http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml
- <http://www.un.org/sc/committees/1988/list.shtml> Should be done
- Obtain complete documentation in respect of Identity, Address, Income and bank details of the client. Without proper documentation no account should be processed. There should not be any compromise in collecting the mandatory document required to be collected as per SEBI/ PMLA guidelines while opening an account. The details of documents required should be referred from the Account Opening Master circular.
- Insist on introduction of the new client by an existing client. In case introduction by existing client is not possible insist on banker's verification of the signature of the client.
- While the KYC form is collected, the officers should interview the client in respect to the sources of fund, past experience, and kind of volume the client wants to generate.
- A report should be submitted by the front office and in person team; this is required for initial categorization of the client.
- Once the account is opened, the client should be provided copies of all relent papers and due receipt should be obtained.
- KRA registration of the client should be checked and if the client is not registered collect all the required documents for KRA registration.
- KRA registration process should be simultaneously initiated along with the account opening process.

c) Existing Clients:

- Creation of team for re verification of the KYC forms.
- Prepare client wise report of KYC documentation required as per latest SEBI guidelines.
- Prepare client wise report of documentation required as per PMLA guidelines.

- Follow up with client for collection of the documents required.
- Updation of documents collected.
- Updation of income proof on yearly basis.
- Prepare report as per the documentation available, and experience of the client for categorization of the client.
- Mandatory dispatch of quarterly statements through UCP/ Courier and proper trails of the same.
- Proper verification of client whose courier have returned undelivered. And proper reporting of the same to the concerned authority.
- KRA registration of the client should be checked and if the client is not registered collect all the required documents for KRA registration.

3. Client Due Diligence

- 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 clients, that party will 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.
- Verify the customer's identify using reliable, independent source documents, data or information.
- Identify beneficial ownership and control i.e. determines which individually (s) ultimately own(s) or control(s) the customer and/or the person on whose behalf a transaction is being conducted.
- 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 control.
- 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 transaction being conducted are consistent with the registered intermediary's knowledge of the customer, its business and risk profile, taking into account, whose necessary, the customer's source of funds.

4. Categorization of clients

(Low, Medium, High risk and special category)

All the data collected by the compliance division form different division are being used to categorize the clients:-

New clients: - Based on the initial data and comment received by the KYC division, a new client is put into a category (provisional), after tracking the transaction of the client for atleast three months a permanent category is allotted to the client.

The general basis on which the clients are categorized are discussed below:-

Risk Category	Indicative List of Clients*
High Risk	<ol style="list-style-type: none"> 1. Non Assisted Online clients. 2. Non-resident clients (NRI); 3. High Net worth clients (HNI) 4. Trust, Charities, NGOs and organizations receiving donations. 5. Companies having close family shareholdings or Beneficial Ownership. 6. Politically Exposed Persons (PEP). 7. 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); 8. Companies offering Foreign Exchange offerings; 9. Clients in high risk Countries (where existence / effectiveness of money laundering controls is suspect, Countries reputed to be any of the following -- Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent; 10. Non-face to face clients; 11. Clients with dubious reputation as per public information available etc.
Medium Risk	Individual and Non-Individual clients falling under the definition of Speculators, Day Traders and all clients trading in Futures and Options segment.
Low Risk	The clients who are not covered in the high & medium risk profile are treated as Low risk Profile client.

*This list is indicative. The risk profile also depends on trading pattern, payment pattern, financial status and background of the client. Eureka shall put in place system of periodical review of risk categorization of accounts and should exercise on independent judgment to ascertain whether new clients should be classified as special category or not.

5. Process of Determination of Beneficiary Ownership:

We at Eureka Stock & Share Broking Services Ltd have adopted the following checks/ procedure to determine the beneficial ownership of an account as per SEBI circular no: CIR/MIRSD/2/2013 dated 24.01.2013

- 1) **Individual:** - The determination of beneficial ownership is much easier, as the account holder is assumed to be the beneficial owner. We determine the ownership of the client based on the financial position of the client, the information we have in respect of his integrity, social standing and financial position. In case of account of wife and children the social standing and financial position of the Husband/ Father is also taken into consideration.

- 2) **HUF:** For determining the beneficial ownership of a HUF, the KYC documents as outlined by SEBI is collected, in addition the details of the Karta are also collected. We determine the ownership of the client based on the financial position of the HUF and the Karta & the information we have in respect of his integrity, social standing and financial position.
- 3) **Partnership:** - For determining the beneficial ownership of a partnership a/c, the KYC documents as outlined by SEBI is collected, in addition the details of the partners are also collected. We determine the ownership of the client based on the financial position of the firm and the partners & the information we have in respect of their integrity, social standing and financial position.
- 4) **NRI:** - For determining the beneficial ownership of a NRI client, the KYC documents outlined by SEBI is collected, we determine the ownership of the client based on the financial position of the client, the information we have in respect of his integrity and social standing. The social standing of the family of the client is also taken into consideration. The sources of funds of the client are also analyzed. The client is not allowed intraday trading, FNO and Currency trading in almost all the cases.
- 5) **Corporates:** - For determining the beneficial ownership of a corporate account, the KYC documents as outlined by SEBI is collected. Special attention is paid on the share holding Pattern for determination of the dominant promoter group (DPG), the financial position, integrity and social standing of the DPG is also analyzed. We determine the ownership of the client based on the above. In case it is observed that a corporate is holding more than 25% shares of the proposed client, the share holding pattern of the corporate is also taken to determine the human being actually holding the shares of the proposed client.
- 6) **Trust:** - For Determining the beneficial ownership of a trust account, the KYC documents as outlined by SEBI is collected. Special attention is paid to the trust deed to determine the ultimate beneficiaries, the trustees, the protector and the settler of the trust and any other natural person exercising ultimate control over the trust. Based on the above the beneficial ownership of the trust account is determined.
- 7) In case of AOP: As the company does not have any AOP account, no process is laid for determination of beneficial owner(s)

Note: It should be noted that the company will rely on documents and self declaration with evidence for determination of beneficiary ownership of the entity.

6. Execution of Delivery Instruction Slips:

The DP has inbuilt system for accepting & executing Delivery Instructions as follows:

- There is system to issue DIS booklets to BOs based only on requisition slip which forms part of the earlier issued DIS's and such requisition slip has pre-printed instruction slip serial number.
- DP is issuing only ONE DIS booklet containing not less than 10 slip for all category of account holders, at a time.
- The instruction slip number is verified against the issue details at the time of receipt from BO.
- There is provision for blocking of DIS serial numbers which are already used or reported lost / misplaced and or stolen.
- DP executes instructions only on basis of duly signed instruction slips by all account holders or as per instructions registered with DP and the signatures are duly verified with our records.
- DP verifies corrections / cancellations on the instruction slips, if any, and whether authenticated /signed by all account holders or registered signatories.
- DP has systems and procedures to double check transactions originating from Dormant Accounts , (and if any found then processing of the same is done with extra care, like verifying with the client either email/phone /fax and if required to obtain a confirmation for the same , of having issuing a instruction slip).
- In case of off-market transactions, confirmation is sought from the clients regarding the instructions sent by him and the reasons for such transfers. In addition, we write the confirmation/ communication with the client details and the reason for such transfer on the reverse of DIS in case of off market/dormant and high value instruction slips.

7. Suspicious Transaction- Monitoring & Analysis:

In order to monitor and analyze suspicious transaction we should understand what suspicious transaction is: Suspicious transaction means transactions, whether or not made in cash, which a person acting in good faith –

- Gives rise to reasonable ground of suspicion that it may involve the proceeds of crime or
- Appears to be made in circumstance of unusual or unjustified complex, or
- Appears to have no economic rationale or bone fide purpose

Reason for suspicious:

- Identity of client
 1. False identification documents, documents not properly verified
 2. False address proof
 3. Documents received back undelivered from the client's address
 4. In person verification not properly done
 5. Doubt over the real beneficiary of the account
 6. A/c opened with names very close to other established business entity.

- Client having suspicious or criminal back ground.
- Multiple Account
 1. Large number of accounts having a common parameter such as common partners/ directors/ promoters/ address /email/ telephone no/ introducer/ or authorized signatory.
 2. Unexplained transfer between such multiple accounts.
- Activity in Account
 1. Unusual activity compared to past transaction.
 2. Use of different accounts by client alternately.
 3. Sudden activity in dormant accounts.
 4. Actively inconsistent with what would be expected from the declared business.
 5. Account used for circular trading.
- Nature of Transaction
 1. Unusual or unjustified complexity.
 2. No economic rationale or bonafide purpose.
 3. Sources of funds are doubtful.
 4. Third party involvement is sensed.
 5. Appears to be a case of insider trading.
 6. Purchase in own account transferred to third party through off market transaction through DP.
 7. Transaction reflects likely market manipulation.
 8. Suspicious off market transaction.
- Value of Transaction
 1. In consistent with the client's apparent financial standing.
 2. Value of transaction just below the threshold amount in an apparent to avoid reporting.
 3. Large sum of money being transferred from overseas payments.
 4. Block deals which is not at market price or prices appear to be artificially .inflated/ deflated.
- Updation of documents of clients
 1. Financial documents of client trading in derivative segment should be updated on an yearly basis
 2. Financial documents of Non individual clients in cash segment should be updated on an yearly basis
 3. For Demat and individual clients trading in cash segment, client's financial data should be updated in line with value of transactions and income range mentioned by the client as and when required.

- Alerts generated by NSDL/CDSL based on transactions in Depository Accounts
 1. Debit and Credit transactions due to Off-market or Inter-depository transfers, above a threshold quantity, in an ISIN, in a single transaction or series of transactions executed during the fortnight.
 2. Details of debit and credit transactions due to demat, remat and pledge above a threshold quantity / value , in an ISIN, in a single transaction or series of transactions executed during the fortnight.
 3. Details of debit and credit transactions above a threshold quantity/value whichever is smaller, in an ISIN, which exceed a threshold multiple of the average size of the transaction calculated for the previous months" transactions.
 4. Details of Off-market transactions (within NSDL or Inter-depository) where there are more than a threshold number of transactions in an account, for the past fortnight.
 5. Any debit transaction in a dormant account for exceeding a threshold quantity/value whichever is smaller, will be reported as an alert. An account having no 'Debit' Transaction" in the last 'n' months will be considered as 'Dormant' account for this purpose.

Further the Compliance Department should randomly examine select transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

8. Reporting of Suspicious Transaction to Management

After monitoring and analyzing data on the above thresh hold the following is reported to the Principle Officer:

1. The nature of transaction;
2. The value of transaction;
3. The parties to the transaction;
4. Reason for suspicion;
5. Documentary/ Other evidence collected to certify the suspicion.

The Principle officer rechecks and re analyze the data provided to him and if he is Satisfied, forwards the same to the management. The management in turns, on the recommendations of the compliance division and the principle officer decides whether to drop the STR or report the same to the FIU.

9. Reporting of Suspicious Transaction to FIU

Once the management decides to report the suspicious transaction to the FIU, the same is done as per the procedure provided by the exchanges and depository to report the suspicious transaction to the FIU.

10. Maintenance and Preservation of records

Maintenance and Preservation of records are integral part of the PMLA policy. According to the act all records are to be Maintained and preserved for a period of 5 years. "Registered intermediaries shall maintain and preserve the record of documents evidencing the identity of its clients and beneficial owners (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later."

Records of information reported to the Director, Financial Intelligence Unit - India (FIU-IND): Registered intermediaries shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

The Ministry of Finance vide its Notification dated 1st June, 2017 made amendments to the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 whereas, as per the proviso of section 2 sub section 17 clause (c), "In case client already having an account based relationship with reporting entities prior to date of this notification fails to submit the Aadhar number and PAN number by 31st December, 2017, the said account shall cease to be operational till the time the Aadhar number and PAN number is submitted by the client". Henceforth, we are in process to take the necessary steps to comply with the said notification.

11. Freezing of funds, financial assets:

In line with directions of FIU Eureka Stock & Share Broking Services will freeze funds, financial assets or economic resources or related services of a client on receipt of instruction from any appropriate/ regulatory authority and intimate the client after the freezing is done.

12. Recruitment of Staff

Recruitment of staff is done by the HR division. HR division on receipt of intimation for requirement of staff from any division searches for a suitable candidate. The back ground checking of the candidate is thoroughly done. Reference from any of the management person, existing employee or business associate is must. The candidate after the above is called for an interview by the HR division. Then the HOD of the division interviews the candidate after which the candidate is interviewed by the management. Based on the recommendation of all concerned the candidate is either appointed or rejected.

13. Staff training and up gradation

Knowledge about the act is very important. We at Eureka Stock organize bi monthly training and interactive session on PMLA Act to train and upgrade our officers. In these sessions our officers are informed about the act and any recent development on the same. But bulk of the time is utilized to inform all the reasons to consider a transaction as suspicious, the full procedure followed by all the divisions. The analysis done by the compliance division and the results derived therein. This is done to make every one understand all ifs and buts of the PMLA Act.

14. Investor Education

Interactive sessions are organized at various locations, where investors are informed about PMLA. Interactive sessions with Sub Brokers and Branch Heads on PMLA are organized to educate them of its importance and ways in which they can play part in its implementation.

Conclusion

PMLA is an act formed to protect the economy of any country. Everyone should first understand what actually the act for, the implication is if not followed in the true spirit. Then the act can be followed and implemented. At the outset it appears that the government has of loaded its responsibility on us but this is not the fact. It is impossible for them to monitor the huge transactions that are going on in the capital market. It is the responsibility of all market intermediaries to take active part in implementation of the act. We at Eureka Stock are committed to put in our best effort for implementation of the PMLA Act We at Eureka Stock have learned that it is firstly the procedure formed and the due diligence shown by the officers of a company are the two key factors for proper implementation of the Act. Proper coordination between divisions is also an important factor for proper implementation of the PMLA Act.