

**HSB Securities & Equities Limited**  
**CIN: U67120TG1999PLC032788**

Flat No. 301 & 401, Door No. 3-5-886/1,2,3,4&4A, 3-5-887 & 3-5-888,  
Himayatnagar, Hyderabad, Telangana - 500029

**COMPANY POLICIES**

**Member: -NSE, BSE, MSEI, CDSL, NSDL**

**Reviewed and approved on 24.06.2023**

**Reviewed and Approved by the Board of Directors**

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## **CONFLICT OF INTEREST POLICY**

SEBI vide its circular no. CIR/MIRSD/5/2013 dated August 27, 2013 issued a General Guidelines for dealing with Conflicts of Interest of Intermediaries, Recognised Stock Exchanges, Recognised Clearing Corporations, Depositories and their Associated Persons in Securities Market. SEBI decided to put in place comprehensive guidelines to collectively cover such entities and their associated persons, for elimination / avoidance of their conflict of interest and educating the Associated Persons as defined in Securities and Exchange Board of India (Certification of Associated Persons in the Securities Markets) Regulations, 2007 for the compliance of the guidelines.

SEBI advised to lay down, with active involvement of senior management, policies and internal procedures to identify and avoid or to deal or manage actual or potential conflict of interest, develop an internal code of conduct governing operations and formulate standards of appropriate conduct in the performance of their activities, and ensure to communicate such policies, procedures and code to all concerned.

Being an intermediary and to adhere to the above guidelines, the Company is required to take all reasonable steps to identify, eliminate or manage conflicts of interest. The Company is committed to acting honestly, fairly and professionally and in the best interests of its clients.

### **Purpose:-**

The purpose of this Policy is to set out the Company's approach to identify and manage conflicts of interest which may arise during the course of its business activities.

### **This Policy aims at:**

- a. identifying circumstances which may give rise to conflicts of interest entailing a material risk of damage to clients' interests,
- b. establishing appropriate procedures and systems to manage those conflicts, and
- c. ensuring the maintenance of such procedures and systems in an effort to prevent actual damage to clients' interests through conflicts identified.

**Scope: -**

The Policy applies to the Board of Directors and Employees of the Company (collectively referred to as “Employees”) and relevant associated persons as defined in SEBI (Certification of associated persons in the securities market) Regulations, 2007 with respect to all interactions with the clients.

**Procedures and controls to managing Conflicts of Interests:-**

The procedures and controls that the Company follows to manage the identified conflicts of interests include the following:

1. Effective procedures to prevent or control the exchange of information in the activities involving a risk of conflict of interest where the exchange of that information is likely to harm the interest of one or more clients;
2. Measures to prevent or limit any person from exercising inappropriate influence over the way in which capital market services are carried out;
3. The employees are governed by measures laid down in the internal code of conduct and other policies which include the following:

- a. restrictions on dealing in securities while handling client’s mandate or while in possession of material non published information, or communicating such information while dealing on client’s behalf, manipulating demand or supply of securities or influencing their market price. The same shall be governed by ‘Prevention of Insider Trading Policy’ applicable at M/s. HSB Securities & Equities Limited.

- b. Restrictions on an incentive structure that encourages sale of products not suiting the client’s risk profile.

- c. Restrictions on divulgence of client’s confidentiality unless required by or under the law.

- d. The associated persons shall at all times maintain high standards of integrity in the conduct of their business followed by compliance reporting to Board of Directors and senior management.

4. The Board of Directors of the Company and the Compliance team share the responsibility for keeping the Policy in place. Any situation or transaction involving an actual or potential conflict of interest should promptly be reported to the Compliance team and obtain their determination as to whether a conflict exists.

5. Where a conflict arises and the Company is aware of it, it will disclose the conflict to the client prior to undertaking the business for that client or, if the Company does not believe that the disclosure is appropriate to manage the conflict, the Company may choose not to proceed with the transaction or matter giving rise to the conflict.

6. Periodic review of the Policy will be done at the Board Meeting of the Company. The same shall be need basis.

The Company reserves the right to make review and / or amend its Policy and whenever it deems appropriate.

HSB Securities & Equities Limited

## **POLICY FOR MODIFICATION OF CLIENT CODE OF NON- INSTITUTIONAL TRADES**

### **Objective:-**

The main objective of the policy is to deal with modification of client code after the execution of trade and to create awareness amongst the relevant staff such as dealers, Branch In charge, Compliance Officer and Authorised Persons.

Stock Exchanges provide a facility to modify any client code after the trade has been executed to rectify any error or wrong data entry done by the dealers at the time of punching orders. However, such Client Code modification is subject to certain guidelines as to the time limit within which the client code modification is to be carried out, terminal / system on which such modifications can be done etc. The facility is mainly to provide a system for modification of client codes in case genuine errors in punching / placing the orders. It is to be used as an exception and not as a routine process. To prevent misuse of the facility Stock Exchanges levy penalty / fine for all non-institutional client code modification.

### **Scope of the Policy:-**

This policy covers all the Client Code Modifications carried out / to be carried out in any of the client accounts, subject to the guidelines issued by the SEBI / Stock Exchanges from time to time, in any segment of any exchange for which HSB Securities & Equities Limited is a member.

**"Error Trades"** means the trades which will be modified / to be modified / allowed, to be modified subject to guidelines of the SEBI / Stock Exchanges and this policy. An error account with the name "ERROR" is opened and UCC uploaded for the same to the Stock Exchange.

For the purpose of this Policy, only the following types of trades shall be modified / allowed to be modified, genuineness or error if the pre-condition of error modification:

- i. Error due to communication and/or punching or typing such that the original client code/ name and the modified client code / name are similar to each other.
- ii. Modification within relatives ('Relative' for this purpose would mean "Relative" as defined under the Companies Act, 1956)
- iii. Punching error / typing error of client codes due to any genuine error or mistake in order entry, while punching the order, by any of dealer.

- iv. Trade entered for wrong client due to any miscommunication from the client.
- v. Institutional trades modified to broker error account

**General Conditions:-**

- (i) The facility for Client Code Modification can be used only in case of Error Trade.
- (ii) The Client Code Modification shall be carried out only on the designated system and / or as per the process as may be prescribed by SEBI / Stock Exchange and this policy.
- (iii) The client code modification shall be carried out after due approval from compliance / senior management i.e. the modification needs to be done by Risk Team only after due approval by Compliance head / Dealing Head or Organization Head.

However, it needs to be reiterated that in all cases adequate precautions need to be taken while placing/executing orders so as to minimize the need for resorting to client code modification.

## **LIMIT SETTING POLICY**

The stock broker may from time to time impose and vary limits on the orders that the clients can place through the stock brokers trading system (including exposure limits, turnover limits, limits as to number, value and / or kind of securities in respect of which orders can be placed. The client is aware and agrees that the stock broker may need to vary or reduce the limits or impose new limits urgently on the basis of the stock brokers risk perception and other factors considered relevant by the stock broker including but not limited to limits on account of exchange / SEBI directions / limits (such as broker level / market level limits in security specific / volume specific exposures etc. and the stock broker may be unable to inform the client of such variation, reduction or imposition in advance.

The Client agrees that the stock broker shall not be responsible for such variations, reduction or imposition of client's inability to route any order through the stock brokers trading system on account of such variation, reduction or imposition of limits.

The client further agrees that the stock broker may at any time, at its own discretion and without prior notice, prohibit or restrict the clients ability to place orders or trade in securities through the stock broker or it may subject any order placed by the client to a review before its entry into the trading systems and may refuse to execute / allow orders.

The client agrees that the losses if any on account of such refusal or due to delay caused by such review, shall be borne exclusively by the client alone.

Credit Balances including pledge and re-pledge securities of the clients are uploaded in the system and the clients may take exposure on the basis of margin applicable for respective security as per VAR based margining system of the stock exchange and / or margin defined by the RMS based on its risk perception. Client may take benefit of "Credit for sale" i.e. benefit of shares held as margin by selling the same by selecting Delivery option through order entry window on the trading platform through Early Pay in Mechanism.



## **INTERNAL CONTROL POLICY**

### **KNOW YOUR CLIENT:**

The Clients are allowed to registered and trade only through Authorised Persons of the Company.

On expression of wish for becoming a client by any person, a copy of the Tripartite Agreement along with other documents and forms will be forwarded to the client. The copy of the CRF will also be accompanied with the list of documents and additional documents or proofs required.

Tripartite Agreement, after being signed and filled by the Client along with the Authorised Person, will be received at our Client Registration department.

At the client registration department, the documents are checked and only after they are found proper, the documents will be counter signed by us. The client code generated will be communicated to the client after completion of entire procedure.

A prospective client will be allowed to trade only on satisfactory submission of required documentary proof and proper signing of documents as stipulated by the regulators from time to time.

### **THE FOLLOWING PROCEDURE SHOULD BE ADOPTED FOR IDENTIFICATION OF CLIENT:**

As far as possible, no clients will be registered without personal contact.

In addition to personal contact, for client identification, proper address and identity proof as prescribed by SEBI as per Uniform Documentary Requirement will be obtained from the client including 6 KYC attributes as stipulated.

In person verification should be carried out by the staff along with the Authorised Person and stamp should be affixed for in person verification.

Copy of KYC documents will be provided to client after generating code in back office software.

UCC will be uploaded before execution of trades.

### **REGISTRATION OF AUTHORISED PERSON'S:**

The procedure as prescribed for registration of Authorised Person by the Regulators.

Brokerage will be shared with the respective Authorised Person only.

**TRADING TERMINAL:**

At every Service Centre of DP, the person shall be NISM VI qualified.

Any person dealing with Public, should be NISM VII qualified.

For every derivative terminal, the user should be NISM, Series VIII qualified.

The user will be asked to renew the NISM certificate on its expiry. If the user fails to renew the certificate then he would not be allowed to operate the same any further. The renewed copy of the certificate will be re-obtained and verified with original.

The guidelines laid down by the Exchange for Approved User and Location of trading terminal will be strictly followed. It would be made sure that there is no issue of trading terminals to unauthorized persons or at unauthorized locations.

The data regarding new user as well as modification in existing user should be immediately uploaded and documented on modification or issue to the new user as the case may be.

**CLIENTS TRANSACTIONS:**

Transactions of few major clients would be monitored and in case of any suspicion from our side of possibility of any malfunctioning by the client, the client will be asked to stop such kind of malfunctioning or may be even asked to stop trading and the same will be reported to FIU.

**ORDER PLACEMENT:**

The orders will be placed by the respective authorised person as per the instructions from the clients. However, it should be made sure that the price put up should not be unrealistic or not representing the correct market price. Valid proof of Order placements by the clients should be mentioned.

Every time before execution of order, a final confirmation of the entire order should be made to the client. The clients should not be induced to either Buy or sell.

**OTHERS:**

Complete confidentiality of Client information should be maintained. No client information would be given except if required by law.

Proper records as required by various statues will be maintained.

**APART FROM THE ABOVE, THE FOLLOWING PRECAUTIONS ARE ALSO BEEN IMPLEMENTED:**

All debit / sale obligation confirmations received are verified as to the authenticity, by the officer and for all high value/volume transactions.

The Head of the Department on a regular basis will monitor reconciliation report of the status of instructions.

The Redressal of client's grievances will be solved within a reasonable time period and statistics of the grievances shall be reported to the director/officer on a weekly basis.

Additional internal evaluation activities will be carried out as per the instructions received from the authorities.

Modifications/additions/deletions are carried out after verifying the documents submitted by the client.

Exposures are set out as per the margin systems within the ambit of regulations issued by the authorities.

## **POLICY FOR UNAUTHENTIC NEWS CIRCULATION**

As per code of conduct for Stock Broker in SEBI (Stock Brokers and Sub- brokers) Regulations, 1992 and SEBI circular Cir/ISD/1/2011 dated March 23, 2011, all SEBI registered market intermediaries are required to have proper internal code of conduct to govern the conduct of its Employees.

The objective of this policy is to ensure prevention of unauthentic news/rumors which can harm the normal functioning of market or distorts price discovery or market equilibrium.

1. Employees except Compliance officer should not circulate any news about firms Listed on Stock Exchanges / Market related news by any mode of communication which includes Orally, Email, SMS, blogs, Chat etc.
2. The News / Market related information, if any, which is required to be circulated should only be after approval of compliance officer in writing
3. Logs of such circulation will be maintained with date and time.
4. All the Telephonic conversation lines should be on recording.
5. Conversation with clients on personal mobiles is prohibited.
6. Disciplinary action against employee who contravenes this policy, which may also include termination.

## **POLICY REGARDING TREATMENT OF INACTIVE/DORMANT ACCOUNT**

### **Objective:**

The objective of the policy is to appropriately deal with the Inactive/dormant clients, where clients have not traded for more than 12 continuous months\*\*.

The policy is also applicable for accounts which have been marked inactive on account of Rules, Bye laws, circulars and guidelines issued by SEBI, Exchanges and Internal Risk Management Policies.

Background: SEBI vide circular no. dated December 3, 2009 and the Exchanges directed that a policy be framed by stock brokers to deal with the inactive/dormant accounts.

### **Policy:**

#### **Procedure to handle Inactive/dormant accounts:**

If there is no transaction (buy / sell) entered into by the account holder for more than 12 continuous months, the account will be marked as "INACTIVE/DORMANT".

All the accounts marked as "INACTIVE/DORMANT" needs to be monitored carefully in order to avoid unauthorized transactions in the account. If the client wants to make the account "ACTIVE" after 12 continuous months or after providing the required documents supporting the financial status, the client needs to submit a request to reactivate his/her account. In case there is any change in the information with respect to 6 KYC attributes provided at the time of registration as client, the same has to be submitted along with the request. After proper verification of the updated / revised details and approval from the compliance officer / or concerned department in-charge of registration of clients, the account can be made "ACTIVE" and transaction can take place.

#### **Process for reactivation of Inactive / dormant account which are inactive for 12 continuous months:**

The Client can follow any of the below processes:

1. Call the customer care centre/main office/branch office or authorized person identifying himself (through validation questions/T-PIN/ other confirmation tools, if any) and request for activation of account for placing orders/ transacting in the account or
2. Client can give the duly signed request in writing at any of the branch/main offices of trading member or office of authorized person along with the 6 KYC attributes and relevant supporting documents or

3. Client can also send an email from registered mail id for reactivation request.

**Process for reactivation of Inactive / dormant account which are inactive on account of Risk Management Policies / Non Compliance as per Rules, Bye laws, Circulars and Guidelines issued by SEBI, Exchanges:**

Client can give the duly signed request in writing at any of the branch/main offices of trading member or office of authorized person along with the financial Information required for trading. The Client may also courier/ posts the same for activation of account.

On verification of the same the compliance officer / risk department in-charge can authorize the activation of such Inactive accounts subject to Rules, Bye laws, circulars and guidelines issued by SEBI, Exchanges and Internal Risk Management Policies.

**Consequences of Inactive Account:**

On a client being declared inactive, the client's funds shall be settled.

Settlement of clients funds needs to be done on first Friday (If first Friday is a trading holiday, then such settlement shall happen on the previous trading day) of the month/quarter opted by the client and statement needs to be sent to the client. Proof of sending the statements of settlement of accounts has to be maintained. In case of interim request received from the client for release of funds/securities, the funds and/or securities will be transferred to his account after due verification of the client as per the procedure mentioned above.

If client has not provided running account authorization the funds/securities shall be transferred to client's bank/demat account as a part of daily settlement.

**Controls after activation of Inactive Accounts:**

1. Trades in such Inactive accounts be confirmed with respective clients by a person from Head Office who has not punched / received such orders.
2. Alert generation & monitoring at Head Office in case of trade in any Inactive account which is made Active.

**Review Policy:**

This policy may be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change on account of business needs and Risk Management policy. In case Corporate Members, the policy may be reviewed by the Managing Director/CEO and place the changes in policy before the Board at the meeting first held after such changes are introduced.

**Policy communication:**

A copy of this policy shall be made available to all the relevant staff/persons such as: compliance officer / department in-charge of registration of clients and authorized persons.

Further, a copy of this policy has to be displayed on website.

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## **POLICY FOR PRE-FUNDED INSTRUMENTS / ELECTRONIC FUND TRANSFERS**

### **Objective:**

The objective of the policy is to prevent acceptance of third party funds and to prescribe process to deal with instruments issued by third party when received.

### **Background:**

SEBI vide circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 has specified that the stock brokers can accept demand drafts from their clients. However, SEBI vide circular no. CIR/MIRSD/03/2011 dated June 9, 2011 and National Stock Exchange vide its circular no. NSE/INSP/18024 dated 09-Jun-11 has advised stock brokers to maintain an audit trail while receiving funds from the clients through Demand Draft (DD)/Pay Order (PO)/Bankers Cheque (BC) since such third party pre-paid instruments do not contain the details like name of the client, bank account number are not mentioned on such instruments. Non maintenance of audit trail may result in flow of third party funds or unidentified money which may result into breach of regulations issued under PMLA and SEBI circulars.

### **Terms used in this policy:**

1. **Refunded Instruments** - Referred as Pay order, Demand Draft, banker's cheque etc.
2. **Electronic Fund Transfers** - Referred as transfer of funds using net banking

### **Policy:**

SEBI vide circular no. SEBI/MRD/SE/Cir-33/2003/27/08 dated August 27, 2003 has specified that the stock brokers can accept demand drafts from their clients. However, in accordance with SEBI circular no. CIR/MIRSD/03/2011 dated June 9, 2011, the following needs to be complied:

1. A "Pre-paid instrument received register" with columns for date, name of the client, amount, instrument drawn on (bank name) and such other columns as found necessary shall be maintained. The register may be maintained either in a physical form or in electronic form.
2. Pre-paid instruments of the value of less than Rs 50,000 may be accepted from the client. Whenever such instruments are received, entry into 'Pre-paid instruments Received register' shall be made.



3. If the pre-paid instrument is for value more than Rs 50,000 or If the aggregate value of pre-funded instruments is Rs. 50,000/- or more, per day per client is presented for acceptance, such instrument or instruments may be accepted, only if the same is/are accompanied by the name of the bank account holder and number of the bank account debited for the purpose, duly certified by the issuing bank. The mode of certification may include the following:
  - I. Certificate from the issuing bank or its letter head or on a plain paper with the seal of the issuing bank.
  - II. Certified copy of the requisition slip (portion which is retained by the bank) to issue the instrument.
  - III. Certified copy of the passbook / bank statement for the account debited to issue the instrument.
  - IV. Authentication of the bank account-number debited and name of the account holder by the issuing bank on the reverse of the instrument.
4. If a client submits pre-paid instruments at different times during the day, details and certificates as stated above may be collected along with the instrument with which the aggregate value of pre-paid instruments submitted exceeds Rs 50,000 for that date.
5. In case of any receipt of funds by way of Electronic fund transfer, an audit trail to ensure that funds are received from respective client only has to be maintained. Necessary details may be collected from banker at which the amount is received.
6. If the pre-paid instrument is received through post or any other method where client does not directly interface for submission of the instrument and the instrument does not contain the information as required above, the following action may be taken:
  - Contact the client immediately and seek information. Not to bank the instrument until the information is given by the client.
  - If the pre-paid instrument is bank transfer, contact banker immediately for the details; not utilize the amount so credited until the details are received and not to give credit to the customer until banker gives the details/certification.
7. While giving credit to respective client's ledger, Head office needs to cross check / verify with documents that such instrument is received from respective client's.

**Approval Authority:**

This policy shall be approved by its Board

**Review Policy:**

This policy may be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs.

The policy may be reviewed by Dy.CEO and place the changes in policy before the Board at the meeting first held after such changes are introduced.

**Policy communication:**

A copy of this policy shall be made available to all the relevant staff who are responsible for receipt of funds from clients and customer service executives.

## **POLICY FOR SETTLEMENT OF RUNNING ACCOUNT**

Clients whose funds are maintained on a running account basis, settlement of such clients funds needs to be done on first Friday (If first Friday is a trading holiday, then such settlement shall happen on the previous trading day) of the month/quarter opted by the client and statement needs to be sent to the client.

In case a client wishes to maintain a running account for its funds with the company, the client has to authorize the company in writing to retain its funds. Such authorization should also contain:

- A clause stating that the Client may revoke the authorization at any time (i.e. without notice)
- The Company needs to settle the accounts of all clients who have opted for maintenance of running account instead of bill to bill settlement.
- The Company considers the EOD balance of funds of clients across all segments of the Exchange while settling the client accounts.
- Periodic settlement as per the above mentioned rules is not required to be done in the following cases:
  - Clients settling trades through “custodians”
  - Clients availing margin trading facility (to the extent of funds / securities relating to margin trading facility used by client)
  - Clearing members who are clearing trades of custodial participants / trading members

As per SEBI Circular No. SEBI/HO/MIRSD/DOP/P/CIR/2022/101 dated July 27, 2022 and NSE FAQ vide Ref: NSE/INSP/53820 dated September 23, 2022, the settlement of running account of funds of the client shall be done by the trading member after considering the End of the day (EOD) obligation of funds as on the date of settlement across all the Exchange on first Friday of the Quarter (i.e., Apr-Jun, Jul-Sep, Oct-Dec, Jan-Mar) for all the clients i.e. the running account of funds shall be settled on first Friday of October 2022, January 2023, April 2023, July 2023 and so on. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day. For clients, who have opted for Monthly settlement, running account shall be settled on first Friday of each month. If first Friday is a trading holiday, then such settlement shall happen on the previous trading day.

- In case of client having any outstanding trade position on the day on which settlement of running account of funds is scheduled, the Company will retain funds as illustrated in the above mentioned circulars.
- The Company will first adjust the value of securities (after applying appropriate haircut) accepted as collateral from the clients by way of 'margin pledge' created in the Depository system for the purpose of margin and thereafter the Company shall adjust the client funds.
- The excess securities (in the form of margin pledge) or any cash equivalent collateral identifiable with the client and deposited with CC, after adjustment of the 225% of margin liability will not be unpledged.
- Client's running account shall be considered settled only by making actual payment into client's bank account and not by making any journal entries. Journal entries in client account shall be permitted only for levy / reversal of charges in client's account.
- For the clients having credit balance, who have not done any transaction in the 30 calendar days since the last transaction, the credit balance shall be returned to the client within next three working days irrespective of the date when the running account was previously settled.
- In cases where physical payment instrument (cheque or demand draft) is issued by the Company towards the settlement of running account due to failure of electronic payment instructions, the date of realization of physical instrument into client's bank account shall be considered as settlement date and not the date of issue of physical instrument.

Retention of any amount towards administrative / operational difficulties in settling the accounts of regular trading clients (active clients) shall be discontinued.

The Authorized person is not permitted to accept client's funds and securities. The Company will keep a proper check. Proprietary trading by Authorized person should be permitted only on his own funds and securities and not using any of the client's fund.

On settlement of the running account of funds of a client, intimation shall be sent to the client by SMS on mobile number and also by email. The intimation should also include details about the transfer of funds (in case of electronic transfer – transaction number and date; in case of physical payment instruments – instrument number and date). The Company shall send the retention statement along with the statement of running accounts to the clients within 5 working days.

Client shall bring any dispute on the statement of running account, to our notice within 30 working days from the date of the statement.

## **POLICY ON OUTSOURCING ACTIVITIES**

### **MEANING**

Outsourcing may be defined as the use of one or more than one task for the third party – either within or outside the group - by a registered intermediary to perform the activities associated with services which the intermediary offers. It has been observed that often the intermediaries resort to outsourcing with a view to reduce costs, and at times, for strategic reasons.

### **PRINCIPLES FOR OUTSOURCING FOR INTERMEDIARIES**

1. Assessment of activities to be outsourced
2. Comprehensive outsourcing risk management programme
3. Due - diligence
4. Outlining Outsourcing relationship
5. Confidentiality of the information outsourced
6. Concentration of outsourced services in the hands of a selected few third parties

### **RISKS INVOLVED IN OUTSOURCING OF ACTIVITIES**

1. Operational risk
2. Reputational risk
3. Legal risk

### **APPLICABILITY & CONCLUSION**

The board has decided not to outsource any core functional/ operational activities of the company. Hence guidelines as discussed above are not applicable for us.

## **POLICY ON FACSIMILE (SCANNED/DIGITAL) SIGNATURE ON PHYSICAL/ELECTRONIC CONTRACT NOTES**

### **Policy**

The Company will affix facsimile signatures (scanned / Digital signature) on the physical/Electronic contract notes issued to its clients.

The following controls and procedures are being put in place regarding the use of facsimile (Scanned/Digital) signature:

1. The Board of Directors authorizes the officials of the Company to affix his/her facsimile signature (scanned/Digital signature) in the Contract Notes and other documents issued by the Company to its clients
2. The procedure/ controls for the same is as under;
  - a. The signature shall be scanned and uploaded into the back office systems /software
  - b. The signature would be affixed only on documents generated by the Back Office Software
  - c. In case of change of authorized signatories, the signatures would be replaced after due Board Approval
3. Any changes in the Authorised Signatories, the Board will review and replace with the other Signatories.

The contract note issued with facsimile (scanned/Digital) signature shall be deemed to have been signed by the authorized signatory notwithstanding any misuse of facsimile (scanned/Digital) signature and the ultimate responsibility to prove its genuineness shall rest with the Company.

## **POLICY FOR INTERNAL SHORTAGE OF SECURITIES**

Stock broker shall not be obliged to deliver any securities or pay any money to the client unless and until the same has been received by the stock broker from the exchange, the clearing corporation / clearing house or other company or entity liable to make the payment and the client has fulfilled his / her / its obligations first.

In case any client of the Company defaults in fulfilling securities pay in obligation against sell transaction in a particular settlement where any other client of our company is having a buy position then the Company will consider those short shares as Internal shortage shares.

The Company will settle all the internal shortage of shares internally by taking the highest rate of the Actual Settlement day of that trade by debiting the defaulter and crediting the same to the receiver.

The Company shall modify the policy for internal shortage of securities arising out of internal netting of trades in line with SEBI/ Exchanges' circulars/ guidelines issued from time to time and charge to default seller and compensate the impacted purchaser as per the modified policy.

## **CODE OF INTERNAL PROCEDURES & CONDUCT FOR PREVENTION OF INSIDER TRADING**

The Company have been analyzing/verifying the trade data manually on daily basis for possible 'insider trading' by correlating with clients details in KYC wherever abnormal trading pattern is observed. Further steps are taken to keep track of trading pattern of the entities whenever high quantities/volumes are observed. The data is reported to senior officials for further scrutiny and for action, if any. RMS staff is advised to bring to the knowledge of the concerned senior officials immediately, in case of abnormal trading patterns as mentioned above is noted.

During the training classes/refresher courses for the employees, it is explained about the need and importance and impact of 'insider trading' and its regulations.

This policy may be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy due to business needs.



## **IDENTIFICATION OF BENEFICIAL OWNERSHIP**

### **DEFINITION**

“Beneficial owner” refers to the natural person(s) who ultimately owns or controls a customer and/or the person on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

### **SCOPE**

As part of their Client Due Diligence policy, sufficient information from their clients is obtained in order to identify and verify the identity of persons who beneficially own or control the securities account.

### **GUIDELINES FOR BENEFICIAL OWNERSHIP**

1. **For clients other than individuals or trusts:**

If the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the beneficial owners of the client are identified and reasonable measures are taken to verify the identity of such persons, through the following information:

- a. The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest.

Explanation: Controlling ownership interest means ownership of/entitlement to:

- i. more than 10% of shares or capital or profits of the juridical person, where the juridical person is a company;
  - ii. more than 10% of the capital or profits of the juridical person where the juridical person is a partnership; or
  - iii. more than 10% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.
- b. In cases there exists doubt under clause 1 (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership

interests, the identity of the natural person exercising control over the juridical person through other means.

Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.

- c. Where no natural person is identified under clauses 1 (a) (b) above, the identity of the relevant natural person who holds the position of senior managing official.

2. **For client which is a trust:**

If the client is a trust, then the beneficial owners of the client is identified and reasonable measures are taken to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 10% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

3. **Exemption in case of listed companies:**

If the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

4. **Applicability for foreign investors:**

If there is any dealing with foreign investors' viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, the clarifications issued by the regulators for the purpose of identification of beneficial ownership of the client should be referred.

5. **Implementation:**

The above guidelines have come into force with immediate effect and are reviewed regularly to protect the interests of investors.

## **RISK MANAGEMENT POLICY**

### **RISK BASED APPROACH:**

Classification of both the new and existing clients into high, medium or low risk category depending on parameters such as the customer's background, type of business relationship, transactions etc. Accordingly classification has been made in the Party Master of Hyper soft (Back Office).

Carrying out enhanced customer due diligence process of the clients who are categorized under high risk category.

Further the communications are downloaded from SEBI and other Regulatory Authorities regarding the list of debarred clients and the PAN Nos of such debarred clients are being imported to the Back Office Software. In case of registration of such debarred clients, system is generating an alert.

### **MARGINS:**

The Company will provide margin limit in CM and F&O segments based on availability of initial and exposure margin upfront into the client account in the form Ledger, cash collateral and non-cash collateral on 50:50 basis client wise.

### **CLIENT-WISE DIFFERENTIAL LIMITS:**

The Company may at its discretion allow differential limits in Cash and F&O segments varying from client to client, depending upon credit worthiness and past conduct of each client or any other criteria which company may find suitable.

Exposure for intraday and delivery transactions can be multiple (varying from scrip to scrip based on peak margin).

The value of the "multiple" and the "haircut" shall be decided by the Company based on market volatility and quality of collaterals. Limit on the basis of unsettled sales and uncleared cheques will be at discretion of the Company.

### **PENNY/ILLIQUID STOCKS:**

Penny/ illiquid Stocks are traded at relatively low price and market capitalization. The Company shall have absolute discretion to accept, refuse or partially accept any buy or sell order for execution from a client in respect of penny stocks, illiquid stocks, stocks having low liquidity, illiquid "options", far

month “options”, writing of “options”, and any other contracts which as per the perception of the Company are extremely volatile or subject to Market manipulation.

**THE RIGHT TO SELL CLIENTS SECURITIES OR CLOSE CLIENTS POSITIONS, WITHOUT GIVING NOTICE TO THE CLIENT, ON ACCOUNT OF NON-PAYMENT OF CLIENTS DUES (THIS SHALL BE LIMITED TO THE EXTENT OF SETTLEMENT / MARGIN OBLIGATION):**

The Company shall have the right to sell client’s securities, both unpaid securities as well as collaterals pledged towards margins, or close out client’s open positions, without giving notice to the client where there is a delay/failure of the client to the pay-in obligations and/or there is a failure of the client to bring additional margins to cover the increase in risk in the dynamic market conditions.

**THE MARGIN SHORTFALL IN CM AND F&O SEGMENTS:**

Positions of the client may be closed out to the extent of margin shortfall on the T+1 basis/Real time monitoring basis. While computing margin shortfall, value of unapproved securities shall not be considered. As per the Exchange requirements, the Company is required to maintain a prescribed ratio (50:50) between cash and collaterals margin deposited with the Exchange.

**SECURITIES BOUGHT UNDER MARGIN TRADING FACILITY:**

Positions of the client may be closed out to the extent of margin shortfall on T+1 basis/Real time monitoring basis. While computing margin shortfall, value of unapproved securities shall not be considered. In case of unpaid obligation, the Company may sell the unpaid/ partially paid securities. In addition the Company may sell the collaterals deposited by the client towards margins and/or paid securities purchased by the client in earlier settlements where the sale proceeds of unpaid securities are inadequate to cover the pay-in obligations and/where the unpaid securities appear to be comparatively illiquid and cannot be sold at reasonable rates to the extent required.

**INTRA-DAY POSITIONS:**

The Company shall have discretionary right to close out any intra-day positions taken by the client after a defined ‘Cut-off’ time.

**RISK BASED SQUARE OFF:**

All positions under all Products will be subject to 75% MTM Loss i.e. positions will be liquidated if loss reaches to a pre decided level of client margin loss. The OPEN positions (i.e. the carry forward overnight positions) and the intraday leverage position (across segments) will be squared off at 75% MTM Loss.

**STOCK DERIVATIVE CONTRACTS SETTLED THROUGH PHYSICAL DELIVERY:**

Client's positions in Stock Option and Stock Future contracts which will expire in next 5 trading days may be squared off if client do not have sufficient Margin available.

**PROCEDURE FOR ACTIVATION OF IN-OPERATIVE ACCOUNTS**

Any client is not doing single transaction into trading account with us for a period of 12 months. To activate these dormant / inoperative accounts, clients require filling up re-activation form and providing the other related documents (including IPV) and details as per company policy.

**PAY-IN OF FUND & STOCK:**

Third party pay-in of securities & funds will not be accepted. Same way pay out of shares and fund will be directly done to client account only. No securities belonging to one client be used/transferred for Own purpose or for other client.

**COLLECTIONS:**

Collection from clients must be done by T / T+1 day by electronic mode.

**SUSPICIOUS TRANSACTIONS:**

As regards to suspicious transactions, even though the system is not generating automated alerts, we have a compensating system of manual controls, whereby we are able to monitor the suspicious transactions by comparing with the list of illiquid scrip's and banned entities list.

## **SURVEILLANCE POLICY**

### **A. Background:**

We along with our Employees/Branch-Offices/Authorized Persons are the first touch point in the securities market for investors and are expected to have reasonably fair understanding about their client(s) and its trading activity. Thus, Exchanges/regulators have entrusted on us the first level of the responsibility to ensure that neither us nor our client(s) are misusing the trading system by indulging in manipulation or any other illegal activities which can cause risk to the integrity of the market and distorts the equilibrium of the market.

#### **Objectives of framing a surveillance policy covering**

- Alerts to be generated.
- Threshold limits and the rationale for the same.
- Review process.
- Time frame for disposition of alerts and if there is any delay in disposition, reason for the same should be documented.
- Suspicious/Manipulative activity identification and reporting process.
- Record Maintenance.

### **B. Surveillance framework:**

It is mandatory under the exchange/regulatory directives to have in place appropriate Surveillance Policies and Systems to detect, monitor and analyze transactions. For the above we have to co-relate the transaction data with their clients' information/data and Detect suspicious/manipulative transactions is an ongoing continuous process with analysis of trades and transactions and carrying out Client Due Diligence (CDD) on a continuous basis.

In-order to implement the Stock Exchange / Depository directives, they have provided us following alerts which have to be reviewed by us.

In addition to this we have also using back office software for generation of Alerts. Both types of alerts are processed within 30 days as DP and 45 days as stock broker from the date of alerts downloaded by the Depository and Exchanges as well as alerts generated by our end.

The details of both these have been enumerated below:

## 1. Exchange Alerts

Sr No	Transactional Alerts	Segment
1	Significant increase in client activity	Cash
2	Sudden trading activity in dormant account	Cash
3	Clients/Group of Client(s), deal in common scrips	Cash
4	Client(s)/Group of Client(s) is concentrated in a few illiquid scrips	Cash
5	Client(s)/Group of Client(s) dealing in scrip in minimum lot size	Cash
6	Client / Group of Client(s) Concentration in a scrip	Cash
7	Circular Trading	Cash
8	Pump and Dump (Pump-and-dump” involve the touting of a company’s stock (typically small, so-called “microcap” companies) through false and misleading statements to the marketplace.)	Cash
9	Wash Sales ( A wash sale is trading activity in which shares of a security are sold at a loss and a substantially identical security is purchased)	Cash & Derivatives
10	Reversal of Trades	Cash & Derivatives
11	Front Running (Execution of orders in a security for its own account by the member while taking advantage of advance knowledge of orders from its customers)	Cash
12	Concentrated position in the Open Interest / High Turnover concentration	Derivatives
13	Order book spoofing i.e. large orders away from market	Cash

## CDSL Alerts:-

Sr. No.	Indicative themes:
1.	Alert for multiple demat accounts opened with same demographic details: Alert for accounts opened with same PAN /mobile number / email id/ bank account no. / address considering the existing demat accounts held with the DP.
2.	Alert for communication (emails/letter) sent on registered Email id/address of clients are getting bounced.
3.	Frequent changes in details of demat account such as, address, email id, mobile number, Authorized Signatory, POA holder etc.
4.	Frequent Off-Market transfers by a client in a specified period
5.	Off-market transfers not commensurate with the income/Networth of the client.

6.	Pledge transactions not commensurate with the income/Networth of the client
7.	Off-market transfers (High Value) immediately after modification of details in demat account
8.	Review of reasons of off-market transfers provided by client for off-market transfers vis- à-vis profile of the client e.g. transfers with reason code Gifts with consideration, frequent transfers with reason code Gifts/Donation to unrelated parties, frequent transfers with reason code off-market sales
9.	Alert for newly opened accounts wherein sudden Increase in transactions activities in short span of time and suddenly holding in demat account becomes zero or account becomes dormant after some time
10.	Any other alerts and mechanism in order to prevent and detect any type of market manipulation activity carried out by their clients.

## II. IN-HOUSE ALERTS

1. Client / group of clients, as identified by the trading member, accounting for a significant percentage of the total trading activity in a scrip / contract as compared to the market.

2. Client / group of clients with new account or clients dealing after a significant time gap, as identified by the trading member, accounting for significant value / percentage of total trading activity in a scrip / contract as compared to the market.

3. Client / group of clients dealing frequently in small quantities/minimum market lot in a scrip /contract.

4. Disproportionate trading activity vs reported income / Net worth.

5. Frequent changes in KYC submitted by clients.

10. **Related to DP Operation:** Significant trading activity in scrips where client has pledged shares or has significant holding or as frequent off-market transactions.

12. **Related to Internet based Trading:** Surveillance / monitoring of IP addresses of clients (including identification of multiple client codes trading from the same location.

### C. Obligation w.r.t. client due diligence:

1. We will carry out the Due Diligence of their client(s) on an on-going basis.



2. We shall ensure that key KYC parameters of the clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in UCC database of the Exchange. We shall also ensure that key KYC parameters of the clients are updated on a periodic basis as prescribed by SEBI and latest information of the client is updated in Depository System.

3. Based on available information, we shall establish groups / association amongst clients, inter alia, to identify multiple accounts / common account / group of clients.

#### **D. Obligations**

##### **I. w.r.t. processing of alerts:**

1. We shall obtain trading rationale and necessary documentation including bank statements, demat statements for analysing / processing the alerts.

2. After analyzing the documentary evidences, we shall record its observations for such identified transactions of its Client / Group of Clients.

3. With respect to the transactional alerts downloaded by the Exchange, we shall ensure that all alerts are analyzed and status thereof (Verified & Closed / Verified & Sent to Exchange) including action taken is updated within 45 days, in the Member Surveillance Dashboard.

4. With respect to the alerts generated, we shall report instances with adverse observation, along with details of action taken, to the Exchange within 45 days of the alert generation.

**II. W.r.t. DP Operations:** We will maintain register (electronic/physical) for recording of all alerts generated. While reviewing alerts, we shall obtain transaction rationale, verify demat statement and also obtain supporting documents as required from the client.

After verifying the documentary evidences, we will record its observations for such identified transactions of its Client.

With respect to the transactional alerts provided by Depository, we shall ensure that all alerts are reviewed, and status thereof (Verified & Closed / Verified & Reported to Depository) including action taken is updated within 30 days. Detailed procedure w.r.t sharing of alert by Depository with DPs and report submission by DPs in this regard will be provided separately.

With respect to the alerts generated at our end, we shall report instances with adverse observation, along with details of action taken within 7 days of the date of identification of adverse observation.

**E. Obligation of Compliance officer, Designated Director:**

1. The surveillance activities shall be conducted under overall supervision of its Compliance Officer.
2. A quarterly MIS shall be put up to the Designated Directors on the number of alerts pending at the beginning of the quarter, generated during the quarter, processed and acted upon during the quarter and cases pending at the end of the quarter along with reasons for pendency and action plan for closure. Also, the Designated Director shall be apprised of any exception noticed during the disposition of alerts.
3. Designated Directors would be responsible for all surveillance activities carried out.

**F. Obligation of Quarterly reporting of status of the alerts generated to Exchanges/Depository:**

We will provide duly approved status of the alerts on a quarterly basis, in the prescribed format to the Exchange/Depository within 15 days from end of the quarter.

**G. General:**

1. A daily reporting of the alerts to the Designated Director and Principal Officer.
2. Quarterly MIS to the Board of Directors , if there are alerts as to the number of alerts received, disposed off during the quarter and pending at the end of the quarter and the reasons for pendency should be discussed and appropriate action taken for disposing of the alerts.
3. The surveillance process to be conducted under overall supervision of its Compliance Officer/Principal Officer. Compliance Officer of the Company and their team would be responsible for all surveillance activities carried out for the record maintenance and reporting of such activities under the supervision of the Designated Director.
4. Internal auditor shall review the surveillance policy, its implementation, effectiveness and review the alerts generated during the period of audit. Internal auditor shall record the observations with respect to the same in their report.
5. This policy would be made available to the internal auditors and regulators during the course of audits or as and when demanded.

# **POLICY FOR PREVENTION OF MONEY LAUNDERING**

## **Contents**

1. Overview
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6. Maintenance of Records
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8. Reporting and Monitoring of Suspicious Transactions
9. Reporting to Financial Intelligence Unit-India

## **1. Overview**

### **Background**

Pursuant to the recommendations made by the Financial Action Task Force on anti-money laundering standards, SEBI had issued the Guidelines on Anti Money Laundering Standards. As per these SEBI guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

The Prevention of Money Laundering Act ("PMLA") defines money laundering as: "directly or indirectly attempting to indulge or knowingly assisting or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering."

Both money laundering ("ML") and terrorist financing ("TF") are criminal offenses under the Laws of India. Intermediaries and their employees are obligated to be aware of and report any potentially suspicious activity relating to the underlying crime, as well as to the potential laundering of funds. For example, as a securities firm, employees must be alert to potential insider trading, market manipulation and other forms of securities fraud.

## **Prevention of Money Laundering Act, 2002**

Prevention of Money Laundering Act, 2002 (PMLA 2002) forms the core of the legal framework put in place by India to combat money laundering. As per the provisions of the PMLA, every intermediary (which includes a stock-broker, Authorised Person etc.) shall have to verify identity of clients, maintain a record of all the transactions; the nature and value of which has been prescribed in the Rules under the PMLA.

## **Financial Intelligence Unit (FIU) – INDIA**

The Government of India set up Financial Intelligence Unit-India (FIU-IND) as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister.

FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspicious financial transactions. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

## **Objective of these Guidelines**

The purpose of this document is to guide all the employees of the Company on the steps that they are required to take and implement to prevent and identify any money laundering or terrorist financing activities. It shall be the responsibility of each of the concerned employees that they should be able to satisfy themselves that the measures taken by them are adequate, appropriate and follow the spirit of these measures and the requirements as enshrined in the “Prevention of Money Laundering Act, 2002”.

## **1. Client Due Diligence**

The Customer Due Diligence Process includes three specific parameters:

- Policy for Acceptance of Clients
- Client Identification Procedure
- Suspicious Transactions identification & reporting

### **1.1 Client acceptance and identification**

- i. In case of individuals, basic documents pertaining to proof of identity and proof of address shall be collected. Such documents includes:

<b>Proof of Identity (POI)</b>	<b>Proof of Address (POA)</b>
PAN card with photograph	Utility bills
Aadhar/ Passport/ Voter ID card/ Driving license	Bank Account Statement/Passbook - Not more than 3 months old.
Identity card/ document with applicant's Photo issued by Government and Regulators	Self-declaration by High Court and Supreme Court judges, giving the new address in respect of their own accounts

- ii. PAN is mandatory in all the cases except in the following cases:
- People residing in the state of Sikkim provided such set of people submit sufficient documentary evidence proving the veracity of the claim. (MRD/DoP/Cir-02/2007).
  - Officials appointed by Central Government, State Government and the Court for transacting in the securities market. (MRP/DoP/Cir-20/2008)
  - UN entities/multilateral agencies exempt from paying taxes/filing tax returns in India.
  - SIP of Mutual Funds upto Rs. 50, 000/- p.a.
  - In case of institutional clients, namely, FIIs, MFs, VCFs, FVCIs, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with IRDA and Public Financial Institution as defined under the Companies Act, Custodians shall verify the PAN card details with the original PAN card and provide duly certified copies of such verified PAN details to the intermediary
- iii. In case of non-individuals, additional documents to be obtained over and above the POI and POA, as mentioned below:

<b>Type of Entity</b>	<b>Documents</b>
Corporate/Partnership firm/Trust	<ul style="list-style-type: none"> <li>• Copy of the balance sheets for the last 2 financial years (to be submitted every year).</li> <li>• Copy of latest share holding pattern, duly certified by the company secretary/Whole time director/MD (to be submitted every year).</li> <li>• Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations and individual promoters holding control - either directly or indirectly.</li> <li>• Copies of the Memorandum and Articles of Association and certificate of incorporation / Certificate of Registration (Trust and</li> </ul>

	Partnership firm). <ul style="list-style-type: none"> <li>• Copy of Trust deed/ Partnership deed.</li> <li>• Copy of the Board Resolution for investment in securities market.</li> <li>• Authorised signatories list with specimen signatures.</li> </ul>
HUF	<ul style="list-style-type: none"> <li>• PAN of HUF.</li> <li>• Deed of declaration of HUF/ List of coparceners.</li> <li>• Bank pass-book/bank statement in the name of HUF. Photograph, POI, POA, PAN of Karta.</li> </ul>
Unincorporated association or a body of individuals	<ul style="list-style-type: none"> <li>• Proof of Existence/Constitution document. Resolution of the managing body and Power of Attorney granted to transact business on its behalf.</li> <li>• Authorized signatories list with specimen signatures.</li> </ul>
Banks/Institutional Investors	<ul style="list-style-type: none"> <li>• Copy of the constitution/registration or annual report/balance sheet for the last 2 financial years.</li> <li>• Authorized signatories list with specimen signatures.</li> </ul>
Foreign Institutional Investors (FII)	<ul style="list-style-type: none"> <li>• Copy of SEBI registration certificate.</li> <li>• Authorized signatories list with specimen signatures.</li> </ul>
Army/ Government Bodies	<ul style="list-style-type: none"> <li>• Self-certification on letterhead.</li> <li>• Authorized signatories list with specimen signatures.</li> </ul>
Registered Society	<ul style="list-style-type: none"> <li>• Copy of Registration Certificate under Societies Registration Act.</li> <li>• List of Managing Committee members. Committee resolution for persons authorised to act as authorised signatories with specimen signatures.</li> <li>• True copy of Society Rules and Bye Laws certified by the Chairman/Secretary</li> </ul>

- iv. In person verification is mandatory in all cases except the following cases:
- Individuals whose KRA is verified
  - E-KYC service offered by UIDAI
- v. No account is opened in a fictitious / benami name or on an anonymous basis.

- vi. No account will be opened where appropriate Customer Due Diligence/KYC policies cannot be applied.
- vii. Do not accept clients with identity matching persons known to have criminal background.
- viii. Be careful while accepting Clients of Special category (CSC). SEBI guidelines classify CSC as 'high risk' category clients that require a higher degree of due diligence and regular update of KYC profile. An illustrative list of the various categories included in CSC is as follows:

- Non-resident clients
- High net worth clients
- Trusts, charities, NGOs and organizations receiving donations
- Companies having close family shareholdings or beneficial ownership
- Companies offering foreign exchange offerings
- Clients with dubious reputation as per public information sources, etc
- Non face-to-face clients
- Clients in high risk countries
- Politically Exposed Persons **(PEP)**

- ix. Determine the category of the client on the following parameters:

Category	Illustrations (Indicative)
Low risk clients	These are clients with low or nil risk. For eg., Corporates with good governance / HNIs having a respectable social and financial standing
Medium risk clients	Intra-day clients or speculative clients
High risk clients	Clients with suspicious background, do not have any financial status, etc.
Category of special clients	Non-resident clients, high net worth clients, trust, charities, NGOs and organizations receiving donations, companies having close family shareholdings or beneficial ownership, politically exposed persons (PEP) including their family members and relatives, companies offering foreign exchange offerings, clients in high risk countries, non-face to face clients, clients with dubious reputation as per public information available and any other clients as classified

- x. Clients posing a higher risk of money laundering are required to undergo an Enhanced Due Diligence process, which typically means escalation to Level III due diligence requirements pursuant to the CDD Requirements.

### **General Guidelines**

- i. Verify the forms submitted by the client thoroughly and cross check the details with various documents obtained like source of income. If required, ask for any additional details like salary slips, etc. to satisfy yourself whenever there is a doubt.
- ii. Review the above details on an on-going basis to ensure that the transactions being conducted are consistent with our knowledge about the clients, its business and risk profile and also taking into account, the Client's source of funds, wherever necessary.

### **Authenticity of the Client's account**

- iii. The account shall be opened in the name of a genuine person or authorised person. The aforesaid person should not have a criminal background or should not be banned under any law.
- iv. Verify bank statement and tax returns for individuals and financial statements for entities to determine the net worth of the client. Accordingly, determine the transaction limit regarding value/quantity, manner of operation of the account and the total threshold limit to be given.
- v. In case of any suspicious account or suspicious trading, the same shall be reported to the appropriate authorities.

### **1.2 Periodic review:**

- i. Conduct review of the information submitted by the client on quarterly or yearly basis depending on the category of the client.
- ii. Keep proper check on the bank statement and tax returns of the client on a periodic basis.
- iii. Monitor unusual large transactions which exceeds the threshold limit provided to the client.

### **1.3 Reliance on third party for carrying out Client Due Diligence:**

Relying on third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner.



#### **1.4 Identification of Beneficial Owner:**

Check would be done for actual beneficial ownership and control of the particular account. We need to obtain the details with respect to Shareholders / promoters (Holding more than 10 % or more of share capital of Corporate entities), Partners (Holding more than 10 % or more of capital or profits of partnership firm), Unincorporated association or body of individuals (Holding more than 10 % or more of property or capital or profits of juridical person) from the non individual clients and wherever possible it has to be verified independently. Where the client is a trust, identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 10% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.

Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

#### **1.5 Registration on DARPAN Portal of NITI Aayog:**

Every registered intermediary shall register the details of a client, in case of client being a non-profit organisation, on the DARPAN Portal of NITI Aayog, if not already registered, and maintain such registration records for a period of five years after the business relationship between a client and the registered intermediary has ended or the account has been closed, whichever is later.

### **3. Risk Assessment:**

Carrying out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions. It should carry all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. It should be

documented, updated regularly and made available to the competent authorities.

**4. Appointment of Principal Officer:**

- 4.1 An officer, designated as Principal Officer, shall be appointed by the organisation to report the suspicious transactions to the authorities and discharge legal obligations.
- 4.2 Principal Officer must be responsible for identification and assessment of suspicious transactions and shall be able to report the same to the senior management.
- 4.3 Details of the Principal Officer or any changes thereof such as name, designation and address shall be intimated to the office of FIU immediately.

**5. Appointment of Designated Director:**

- 5.1 In addition to the Principal Officer, Designated Director shall be appointed to comply with the Anti-Money laundering provisions as directed by SEBI. Designated Director includes:-
  - i. Managing director or whole time director authorised by the Board
  - ii. The managing partner in case of partnership firm
  - iii. The proprietor in case of proprietorship concern
  - iv. The managing trustee in case of trust
  - v. An individual who manages affairs of the reporting entity
  - vi. Such person as may be notified by the Government
- 5.2 The details of the Designated Director shall also be reported to the office of the Director FIU-IND.

**6. Record keeping requirements:**

- 6.1 The Company shall have proper systems to maintain and preserve the following information in respect of all the cash transactions and suspicious transactions:
  - i. The nature of transactions;
  - ii. The amount of transaction and the dominated currency;
  - iii. The date of the transaction;
  - iv. Parties to the transaction
- 6.2 The records will be maintained as per requirement specified in SEBI Act 1992, PMLA, other Rules and Regulations of the Exchanges and the circulars issued.
- 6.3 The Company will ensure that all the client and transaction record and information shall be available to the investigating authorities on timely basis.

- 6.4 The company shall maintain and preserve the records for the minimum period prescribed under AML Act and SEBI Act
- 6.5 In case of on-going investigation or transactions which have been suspected of suspicious transaction, such records shall be retained until the closure of the case.

## **7. Employee's Hiring / Employee's Training / Investor Education:**

### **7.1 Employee's hiring**

- i. Proper screening procedures shall be in place while hiring employees.
- ii. Organisation must ensure that the employees taking up such key positions are skilled, proficient and have high integrity.
- iii. Proper measures must be taken to check the previous employment details of the employee as well as his/her background.

### **7.2 Employees' training**

- i. Organisation must carry out periodic training programme for the staff in Anti Money Laundering procedures and understand the rationale behind the directives, obligations and requirement.

The AML/CFT training Program should comprise four fundamental elements, as outlined below:

- Customer Acceptance Policy
- Customer Identification Procedures
- Monitoring of Transactions and Reporting
- Risk Management

### **7.3 Investor Education**

- i. Implementation of Anti Money Laundering procedures requires intermediaries to demand certain information from client which may be of personal nature or which has hitherto never been called for. Therefore, the organisation must explain the client about the requirements and the provisions of Anti Money Laundering.
- ii. The fiduciary persons in the organisation shall efficiently explain Regulatory requirements and benefits of adhering to the KYC guidelines and seek co-operation of the client.

## **8 Reporting and Monitoring of Suspicious Transactions:**

- 8.1 Scrutinize unusually large transactions in the accounts of the clients.
- 8.2 If any trading activity is observed in the dormant account, the same is to be reported to the Principal Officer or any other designated officer.
- 8.3 Adequate measures should be taken to ensure that suspicious transactions are recognised and then reported.
- 8.4 Selection and examination of clients on certain criteria i.e. trading activity, nature of transaction, volume of transactions, etc., clients with huge and regular losses shall be done in order to scrutinise the suspicious transactions. Identify the Sources of funds in such cases.
- 8.5 Study the nature of client and its transactions and scrutinise if any unusual change is observed in the transactions.
- 8.6 A particular transaction is suspicious or not, will depend upon the background of the client, details of the transactions and other facts and circumstances. Following is the list of circumstances which may be in the nature of suspicious transactions:
  - i. Clients whose identity verification seems difficult;
  - ii. Asset management services for clients where the source of the funds is not clear;
  - iii. Clients in high-risk jurisdictions;
  - iv. Substantial increases in business volume without apparent cause;
  - v. Transfer of large sums of money to or from overseas location;
  - vi. Transfer of investment proceeds to an unrelated third parties;
  - vii. Off shore transactions of the clients
- 8.7 Suspicious transactions reporting include not only 'transactions integrally connected' but also 'transactions remotely connected or related'.
- 8.8 Such suspicious transactions shall be immediately informed to the Principal Officer within the organisation. A detailed report must be prepared with reference to the client, transactions and the reason of suspicion. In exceptional situations, the account and transactions shall be suspended or other action shall be taken.
- 8.9 Verify whether all payments and receipts have been undertaken through legal banking channels and there are no cash transactions
- 8.10 Check whether Net worth/financial details of the clients are periodically reviewed and updated in the records.
- 8.11 To ensure that the registered intermediaries properly discharge their 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 and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. 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. As a matter of principle, it is advisable that the 'Principal Officer' is of a sufficiently senior position and is able to discharge the functions with independence and authority.

8.12 Where registered intermediary is suspicious that transactions relate to money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the client, the registered intermediary shall not pursue the CDD process, and shall instead file a STR with FIU-IND."

## **9 Reporting to Financial Intelligence Unit-India:**

9.1 All suspicious and cash transactions shall be reported to the Director, Financial Intelligence Unit – India at the following address:

**Director, FIU-IND,**

**Financial Intelligence Unit - India**

**6th Floor, Tower-2, Jeevan Bharati Building,**

**Connaught Place, New Delhi-110001, INDIA**

**Telephone: 91-11-23314429, 23314459**

91-11-23319793(Helpdesk) Email: [helpdesk@fiuindia.gov.in](mailto:helpdesk@fiuindia.gov.in)

**(For FINnet and general queries)**

[ctrcell@fiuindia.gov.in](mailto:ctrcell@fiuindia.gov.in)

**(For Reporting Entity / Principal Officer registration related queries)**

[complaints@fiuindia.gov.in](mailto:complaints@fiuindia.gov.in) and Website: <http://fiuindia.gov.in>

9.2 All the transactions shall be reported in the prescribed format within the timeline as specified below:

<b>Report</b>	<b>Description</b>	<b>Due Date</b>
CTR	All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency.	15th day of the succeeding month
	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	
CCR	All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions	
NTR	All transactions involving receipts by non-profit organizations of value more than Rs. 10 lakhs or, its equivalent in foreign currency	
CBWTR	All cross border wire transfers of the value of more than five lakh rupees or its equivalent in foreign currency where either the origin or destination of fund is in India.	
IPR	All purchase and sale by any person of immovable property valued at fifty lakh rupees or more that is registered by the reporting entity*, as the case may be.	15th day of the month succeeding the quarter.
STR	All suspicious transactions whether or not made in cash	Not later than seven working days on being satisfied that the transaction is suspicious.
* - Yet to be notified		

- 9.3 CTR/STR filing are confidential and shall be transmitted by speed/registered post/fax.
- 9.4 Principal Officer shall be responsible for timely submissions.
- 9.5 As and when the alerts are generated, the same will be reported to FIU-IND.