

DOCUMENT ON
ANTI MONEY LAUNDERING
POLICY AND PROCEDURES

SHAH INVESTOR'S HOME LTD

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Table of Contents

I.	Introduction.....
II.	Scope.....
III.	Risk Assessment, Sensitivity and Criticality
	A. Client Risk Levels.....
	B. Client Acceptance Policy
	C. Criticality of Client and Critical Client Account
IV.	Obligations of an Intermediary : Broker and Depository
	(including Terrorist Financing)	
V.	Anti Money Laundering Action Plan.....
VI.	Reporting to FIU
VII.	Testing for Implementation and Modification.....
VIII.	Staff Awareness Program
IX.	Responsibility Statement

I. Introduction

Strict compliance for Regulations and rules of SEBI and all other legal body has been one of the core principles of SHAH INVESTOR'S HOME LTD.

At the juncture of burst of terrorist activity, terrorist financing and channels and ways of hiding the identity of criminals: the utmost need, for building an environment which is full proof and has all the characteristics of proactive approach, has arrived. We, as a vibrant company, know that, -

- Money laundering is a process by which criminals or criminal organizations seek to disguise the Bad money / proceeds by introducing them into the stream of legitimate commerce and finance and
- Bad funds are made available as apparently legitimate funds.

We, at Shah Investor's Home Ltd, know were well, that if these type of financing is been allowed, it will harm the whole Finance Stream of our country, Criminals are by hiding there identity, can easily finance their bad funds and also Diminishes Government Tax Revenue.

SIHL 's goals for acceptance of clients and operating their trades and transactions, are based, therefore, on the principle that there will be full observation of KYC (Know Your Client) norms not only at the time of opening of an account (Trading / Demat) but also during the operational level also, and there will be scrutiny of information at various levels, that represents combination of the followings:

- The Client acceptance policy
- Initial Verification of total KYC Norms
- Client Identification Program
- Observation of Client transactions
- Monitoring of Client database, Tipping off, Updation of records
- Awareness of Anti Money Laundering across Branches and across all the Operational and Managerial Staff.

Achieving a successful Anti Money Laundering situation, has required management to take proactive approach to scan the Activity of SIHL at various levels and with different angle so that, doubtful and fishy transactions may come out.

These guidelines identify the set of measures that are part of company's overall policy and procedures. Anti Money Laundering policy (AMLPL) is a step towards contributing the Government to curb terrorist financing.

II. SCOPE

Fundamental reason of this detailed guideline on AML is to follow the Prevention of Money Laundering Act, 2002 which is being introduced recently.

Circular issued by SEBI: dated January 18, 2006 on Prevention of Money Laundering Act, 2002 laying down broad guidelines on Anti Money Laundering Standards. (Circular no: NSE/INVG/7102: on www.nse-india.com)

As per the circular, all the intermediaries registered with SEBI under Section 12 of the SEBI Act are advised to ensure that a proper policy framework on anti-money laundering measures is put into place within one month from the date of the circular. Requirement of PMLA is as follows:

- **Maintain record of all the prescribed transactions**, whether comprising of a single transaction or a series of transactions, integrally connected to each other taking place within a month
- **Furnish information of the transactions** referred above, to the Financial Intelligence Unit, India –within a prescribed period
- **Verify and Maintain the records of the identity** of all the clients in the prescribed manner

On one hand, there is expansion of a client base, branches and networks and on the other hand Verification of information of client as per KYC, and Client Due Diligence become inevitable for the organization and hence there is urgent need of sound and efficient procedures to create AML environment.

AMLPL is made to follow the regulation, guide personnel and create common environment of vigilantly identify suspicious client so that the same can be reported as per the requirement.

Our Scope of AMLPL covers total process of Client Account Opening till Final transaction and thereafter continuous flow of activity generated by him. The same include Both Trading and DP operations to have a system in place for identifying, monitoring and reporting suspected money laundering to FIU.

With these in mind: to safeguard against any malafide activity, maintain an environment which follow rules and regulations of PMLA and SEBI and to perform Client Due Diligence as a routine activity, we have developed the following as a Policy and Procedures which is applicable across all the offices / branches of SIHL including Head office.

III. Risk Assessment, Sensitivity and Criticality

Our company ensures for risk assessment to identify the Group and Type of Clients who require continuous observation and strict verification.

Risk assessments have been conducted by top management and a manager associated with the activities like Client Account Opening, Demat and Trading Department.

We have determined the levels of risk of money laundering and there are three basic risk characteristics to be assessed:

- The level of *Non Face To Face Appearance*
- The level of *Net worth and Profile criticality and*
- *The level of Turnover - Volume and Relationship*

A. Client Risk Levels:

The basics of the Anti Money Laundering measure for an Intermediary is to have Client Due Diligence and the same can be applied on a Sensitive basis only when there is clear demarcation line for Risk Bifurcation of Client. SIHL has developed a policy that is to be followed while accepting the client and also while applying Anti Money laundering Measures:

(A) High Risk Client:

A client is under a high risk when he is identified / grouped as

- NRI client,
- All the Sub- brokers,
- Politically Exposed Person
- Companies offering Foreign Exchange Offerings

- Client having turnover more than Rs. 10 Lacs in a month for intra day activity
- Client having monthly turnover of Rs. 40 Lacs in a Demat account
- An ID wherein trades less than 5 share has been found
- All the clients who perform off market Traders more than Rs. 20 00 000/- in a month.

(B) Medium Risk Client:

- A client is under a medium risk when he is identified / grouped as
- Not in the category of high risk but still the volume and activity is Critical
- Turnover in the account is not been routinely identified

(C) Low Risk Client:

A client is under a low risk when he neither in (A) nor in (B).

B. Client Acceptance Policy:

Shah Investor's Home Ltd. strictly believes in full implementation of KYC norms and total observation of client risk levels. SIHL has developed a Client Application form where in, total documentation for each category of client has been outlined and check list is being filled by the person who is collecting client application form.

- No account is being opened in Benami Name
- All the required details are being physically checked, marked and verified by different degree of persons from Client Account Opening section, Trading Division personnel and also from DP Division for the sufficiency and accuracy of information.
- At both the Trading and DP Division, client reference needs to be checked
- Details about previous trading activity, experience in the trading, business outline, etc needs to be observed and reflected at specific places.

- Residential address, Office address, Phone numbers and PAN are needs to be verified at different levels of client opening.
- E-trading client needs to be separately educated for systems operations and importance of passwords and risk exposures of E- trading.

C. Criticality of Client and Critical Client Account:

SIHL has developed the areas, which are critical for reporting and also critical for continuous observation. The same are as under:

- False Identification Document
- Large Number of Account having common Account Holder or introducer or authorized signatory
- Unusual activity identified in an account
- Activity in the Dormant Account
- Transaction which is Non Rational
- Off Market Transaction where there is no bonafide purpose
- Inconsistent with Client's financial status
- Appears to be a case of Insider Trading and / or Circular Trading

IV. Obligations of an Intermediary

This section addresses in detail about obligations of an intermediary: SIHL: with respect to PMLA, 2002.

Notifications dated July 1, 2005 and December 13, 2005 have been issued: notifying the Rules under the Prevention of Money Laundering Act (PMLA), 2002. Till today, SEBI master circular dated **31st December 2010** gives brief operational guidelines and formats for reporting requirements.

1. In terms of the Rules, the provisions of PMLA, 2002 came into effect from July 1, 2005. **Section 12** of the PMLA, 2002 casts certain obligations on the intermediaries in regard to preservation and reporting of certain transactions.
2. Requirements of Section 12 r.w Prevention of money laundering (Maintenance of Records of 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 Clients of the Banking companies, Financial institutions and Intermediaries) Rules, 2005 is as under:

- Maintain record of all the prescribed transactions, whether comprising of a single transaction or a series of transactions, integrally connected to each other taking place within a month
- Furnish information of the transactions referred above, to the Financial Intelligence Unit, India –within a prescribed period
- Verify and Maintain the records of the identity of all the clients in the prescribed manner

3. Maintenance of records of transactions

SIHL shall put in place a system of maintaining proper record of transactions prescribed under **Rule 3**, as mentioned below:

- (i) All cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
- (ii) All series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh;
- (iii) All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- (iv) All suspicious transactions whether or not made in cash and by way of:
 - (i) Deposits and credits, withdrawals into or from any accounts in anybody's name and in any currency by way of: cheques, demand drafts, pay orders, or any other instrument of payment of money including electronic transfers, travellers cheque, internal transfer between accounts of same bank, financial institution and intermediary: including from or to Nostro and Vostro Accounts or any other mode
 - (ii) **Credits or debits into or from any non monetary accounts such as D-mat account**, security account in any currency
 - (iii) Money transfer or remittances in any currency, in favour of any person from India or abroad and to third party beneficiaries in or out side India in addition to the modes given in (i) above, by interest transfers, automated clearing house, electronic cards etc.

(iv) Loans and advances including credit or loan substitutes, investments and contingent liability by way of: subscription to debt instruments, purchase of bills/cheques and other instruments, Forex contracts / currency / interest rate / commodity and other **derivative instruments**, LC, Guarantees and other instruments for settlement and / or credit supports.

(v) Collection service in any currency by way of collection of bill, cheques and other instruments.

It is also been clarified that, for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or **related**' **should also be considered.**

4. Information to be maintained

SIHL is required to maintain and preserve the following information in respect of transactions referred to in **Rule 3:**

- ☎)(① The nature of the transactions;
- ☎)()(① The amount of the transaction and the currency in which it was denominated;
- ☎)()()(① The date on which the transaction was conducted; and
- ☎)(❖① The parties to the transaction.

5. Maintenance and Preservation of records

PMLA, 2002 mainly targets Intermediaries to take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities.

All the records mentioned in Rule 3 of above referred rule, have to be maintained and preserved for a period of ten years from the date of cessation of the transactions between the client and intermediary.

6. Freezing of Funds, Financial assets, or other economic resources :

To cope with unlawful activity of Terrorist, Central government has issued an Order dated August 27, 2009 detailing the procedure for implementation of section of Unlawful Activity Prevention Act.

Under the same, CG has the special powers to freeze, seize or attach funds and other financial assets of the persons covered under the said Order or other person suspected to be involved in terrorism. It is the humble responsibility of SIHL to fully implement and scrupulously comply the said Order. Responsibility of identifying and earliest reporting / disclosing these transactions is being accepted by the management.

7. Reporting to Financial Intelligence Unit-India

The Government of India set up Financial Intelligence Unit – India (FIU-IND) on 18th November 2004 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 suspect financial transactions. FIU-IND is also responsible for coordinating and strengthening efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

SIHL has to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address: **Director, FIU-IND, Financial Intelligence Unit-India, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi-110021.**

Website: www.fiuindia.gov.in

Due date for Reporting :

Cash Transaction Report: 15th Day of the Succeeding month

Suspicious Transaction Report: 7th Day of the succeeding month

Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith –

- (a) Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime;
or
- (b) Appears to be made in circumstances of unusual or unjustified complexity;
Or
- (c) Appears to have no economic rationale or bonafide purpose.

The Principal Officer should record his reasons for treating any transaction or a series of transactions as suspicious. It should be ensured that there is no undue delay in arriving at such a conclusion.

It is been clarified that Intermediaries should not put any restrictions on operations in the accounts where an STR has been made. Further, it should be ensured that there is no tipping off to the client at any level.

8. Non disclosure of any information to Client :

There should not be any disclosure of information to client for STR reporting or passing on related information by SIHL to FIU. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it will be ensured that there is no tipping off to the client at any of the level.

9. Investor Education :

Being one of the process of identifying Suspicious transaction, collection of additional information like Nature of transaction, income tax returns, source of funds, bank records etc is integral part of SIHL PMLA policy. Considering the need to educate client for providing such additional sensitive information, SIHL has developed literature/ pamphlets etc for the awareness on ML and TF for PMLA objectives.

V. Anti Money Laundering Action Plan

SIHL has developed the following action plan for the purpose of implementation of Anti Money Laundering.

a) Anti Money Laundering Team

AML team is being formulated which is made by one of the Trading Division officer, one of the DP division officer and a Principal Officer who is being appointed as a nodal agency between SIHL and FIU for the purpose of reporting and any communication.

The team is being given detailed guideline for routine verification of documents, cross checking of information, tracing of accounts for High Risk Clients, Observation on Alerts of NSDL and CDSL at every fortnight, verify any of the Exceptional Reports like High Value transactions, Dormant Client report, generated and has to physically inquire and collect information about nature and reason of transactions if found near criticality levels fixed by this policy.

The team has to keep the total working papers for the actual verification task performed and the same is to be handed over to the Principal Officer.

At the time of any change (retire / appointment) of Principal Officer the same should be reported to FIU well in time.

b) Internal Audits

SIHL has been implemented internal audit for total Depository Operations and Trading operations and the same also works as one of the checks for requirement analysis and client information modification checking.

c) Client Due Diligence :

Client Due Diligence is to be performed for KYC norms and Internal observation of flow of transactions.

For CDD the measures that need to be taken are as follows:

- a) Identify your customer and verify his identity by using independent source document.

Client needs to be identified for residence, business set up, reference etc and related proofs needs to be verified for completeness of KYC norms and correctness of information.

- b) Identify Beneficial Owner, verify his identity and get information about ownership and control structure of your customer.
- c) Obtain information on the purpose of business relationship and more importantly intended nature of the same and also ensure that whether the customer is a politically exposed person.

AML team has to perform for the business relationships, trading experience and whether client or nominee has been politically exposed.

- d) Undertake risk profile of your client by utilizing KYC document.

The same is to be done by collecting Financials of clients, bank account details, trading cycle and experience, mode of payment and volume with respect to each of these points. Apart from the above, risk profit is highlighted by risk assessment as per **III above.**

- e) Obtain sufficient information in order to identify person who is beneficially the owner of the transaction. Whenever it is being found that, the beneficially owner is different person than who is acquiring or dealing the security, the account needs to be scrutinized by AML team for cross verification in detail and will be shifted at High Risk Client Group.

AML team has to finalize a list of client IDs who are segregated for detailed verification in a month considering Risk Profile and Activity conducted. Each of the client is demanded for required information and necessary clarification pertaining to the activity undertaken in the respective account. Send all such writings by registered post and the details of the same with the list of IDs needs to be kept in the file for future reference.

AML team has to verify the same by independent source document and following is insisted for detailed scrutiny:

- Client Information given at the time of account opening
 - Bank and Depository Account details
 - Investment / Trading Experience
 - **References: positive references of existing customers, friends**
 - **Financial & Income Tax Documents and resolutions etc**
 - Photograph
 - Proofs of identity and address
 - MAPIN / PAN / Passport / Driving License / Ration Card
 - Nature of Transaction being undertaken
 - Reply to the Query Letter sent by AML Team
- f) Level of CDD depends upon the level of Risk profit of the client as per point III above. SIHL expects that – for client at High Risk category, all the steps of CDD with physical meet with principal officer is insisted (except for NRIs).

And for medium and low risk, SIHL has framed CDD, which takes 10 to 25 numbers of clients every month as a sample and all the stages of CDD needs to be observed.

- g) Make CDD process an ongoing exercise.

VI. Reporting to FIU - INDIA

AML team has to – at an ongoing base scrutinize client transaction and KYC norms. As per the above IV : SIHL has to report Cash Transaction report and Suspicious Transaction report to Financial Intelligence Unit – Government of India – New Delhi.

Principal Officer has to identify for Suspicious transaction after the CDD as listed in V above and for the same, any of the reply from client needs to be considered – before reaching to a conclusion, there will be a re- look towards actual Flow of Transaction. Principal Officer has to internally report about the reason of suspicion.

Report structure has to be strictly followed.

VII. Testing for Implementation and Modification

SIHL implementation of these Guidelines also include procedures for testing of these guidelines and norms.

We have established a timetable for regular review of the AMLP to keep the same in compliance with the regulations and the same is done every half yearly by General Manager of SIHL with the implementation observation.

The basis aim of the same is to create awareness of security features and plans: among users of Electronic Information resources and to constant upgrade their knowledge with the developments of the Information technology environment adopted at our company: Shah Investor's Home Ltd.

VIII. Staff Awareness Program

The basis aim of the same is to create awareness of Anti Money Laundering Policy and the basis rules and regulations of PMLA 2002: among Staff Personnel who are doing client account opening, client verification and operational aspects of Trading and DP division. The same also includes all the said personnel at all the Branches also. They should be strictly been explained that whenever any fact is been observed which is akin to the breach of Anti Money Laundering, the same should be informed to the Principal Officer with out fail.

SIHL has to set a quarterly presentation for staff awareness on the subject and the same will also give outline for Verification processes. It will cover different levels of personnel : Front office, Back office, compliance staff, staff performing risk management and staff doing In-person verification. The same should constant upgrade their knowledge with the developments of the PMLA and legal requirements.

IX. Responsibilities

It is the responsibility of the Top-level management to devise the guidelines for Anti Money Laundering policy and procedures and to maintenance, update and implement the same in compliance with the legal and regulatory norms of NSE/BSE, NSDL and SEBI.