

**PREVENTION OF MONEY LAUNDERING ACT, 2002**

**Policy Framework and Procedure Manual**

**By**

**MSE FINANCIAL SERVICES LTD**

## **1. INTRODUCTION**

- 1.1. The Prevention of Money Laundering Act, 2002 (PMLA) has come into effect from July 1, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on July 1, 2005 by the Department of Revenue, Ministry of Finance, Government of India.
- 1.2. As per the provisions of the PMLA, every banking company, financial institution (which includes chit fund company, co-operative bank, housing finance institution and non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain record of all the transactions. The nature and value of which has been prescribed in the Rules under the PMLA. Such transactions shall include:
  - (i) all cash transactions of the value of more than Rs.10 lakh or its equivalent in foreign currency.
  - (ii) all series of cash transactions integrally connected to each other which have been valued below Rs.10 lakh or its equivalent in foreign currency, where such series of transactions take place within one calendar month.
  - (iii) all suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non monetary account such as demat account, security account maintained by the registered intermediary.

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

## **2. GUIDELINES ON ANTI-MONEY LAUNDERING STANDARDS**

- 2.1. Every registered intermediary is required to adopt written procedures to implement the Anti-Money Laundering Procedures as envisaged under PMLA. Such procedures should include, inter-alia, the following which are related to overall customer due diligence process:
  - (i) policy for acceptance and registration of client.
  - (ii) procedure for identifying the bonafides of a client.
  - (iii) transaction monitoring and reporting, especially those which are of a suspicious nature.

### **3. POLICY FRAMEWORK & PROCEDURAL GUIDELINES**

#### **3.1. General**

- (i) In the case of MSE FINANCIAL SERVICES LTD,(MSEFSL) the SEBI's Anti-Money Laundering Guidelines would cover the authorized persons, BO Account Holders and the end-client operations on MSEFSL
- (ii) The clients whose activities need to be monitored under PMLA are the clients who trade on MSEFSL and authorized persons of MSEFSL.
- (iii) Accordingly, the policy framework and the procedural guidelines have been stated separately for the authorized persons and the clients of MSEFSL.
- (iv) A registered intermediary should ensure compliance with the record keeping requirements stipulated in the SEBI Act, 1992 and the Rules & Regulations made thereunder, PMLA, relevant other Acts, Rules & Regulations made thereunder and the Bye-laws, Circulars of the relevant Exchange(s).
- (v) Authorized persons and clients are required to maintain such records as are necessary to permit reconstruction of individual transactions, including transaction amounts, so as to provide evidence in any criminal investigation.

#### **3.2. Customer Due Diligence**

##### **Stock Brokers**

- (i) Any person interest in acquiring the authorized person registration of MSEFSL has to fulfill the compliances and procedures specified by the MSEFSL, BSE, NSE, MCX and SEBI.
- (ii) Authorized person registration can be acquired in the name of an Individual, Proprietorship Firm, Partnership Firm and Private or a Public Limited Company.
- (iii) In case the authorized person registration is being acquired by an individual, then due diligence is required in respect of the sole proprietor. In case the authorized person registration is in the name of a partnership firm, the due diligence is required in respect of all the partners of the firm and in case the authorized person registration is in the name of a company, the due diligence is required in respect of all Directors of the corporate entity.
- (iv) Irrespective of the constitution of the authorized person, the sole proprietors, partners or the directors and shareholders, as the case may be, will be required to submit proof of identity which could be copies of their PAN cards, passports, driving licenses. Further, he / they will also be required to submit proof of address document(s), such as ration card(s), passport(s), driving license(s), latest electricity bill(s) (not older than two months), latest residential telephone bill(s) BSNL (not older than two months) or bank pass book(s).

- (v) Verification of the proof of identity and proof of address is carried out by the staff of the Client Registration department of MSEFSL which is counter-checked by an Authorised Official of MSEFSL.
- (vi) Only after MSEFSL has satisfied itself about the bonafides and suitability of the applicant, his / their application for registration as a authorized person of MSEFSL would be forwarded to SEBI / BSE / NSE / MCX for approval.

### **Trading Member Operations**

- (i) Applicants who get selected by the MSEFSL for becoming authorized person can sign the Agreement and thereafter they shall act as authorized persons of MSEFSL, subject to the approval of BSE / NSE / MCX / SEBI.
- (ii) The client is required to show his PAN card in original to the MSEFSL staff as proof of identity. A photocopy of the same is retained by MSEFSL for its record.
- (iii) As far as proof of address is concerned, the original ration card, passport, voter id card, driving license, bank passbook, original electricity bill or residence telephone bill (not older than two months), together with photocopies of the same, or notarized leave & license agreement / agreement of sale of the residential unit of the client have to be furnished at the authorized persons' offices for verification. The original is returned to the client, while the copy is kept as a record by MSEFSL
- (iv) In addition, a passport sized photograph signed by the client across its face is required, as well as bank account details.
- (v) Information pertaining to the investment and trading experience / preferences of the clients should be provided by all the clients in the Client Registration Document.
- (vi) Information pertaining to liquid financial assets as declared by the client should be filled in KYC form.
- (vii) In case of Hindu Undivided Family (HUF): The documents required for an individual client will, in the case of an HUF, be required to be submitted by each of the family members of the HUF. Full particulars of the family members, their names, dates of birth and relationship with the karta are necessary. The karta should sign the account opening form, affixing also the stamp of the HUF. The PAN card of the HUF and Photograph of Karta is also required.
- (viii) In case of a corporate entity: A certified true copy of the board resolution authorizing the specific individual(s) to operate the trading account as authorized signatory/ies and the manner of operating the account, as well as the designation(s) and specimen signature(s) of the authorized signatory/ies certified by the Managing Director or Company Secretary of the corporate entity, would be required. In addition, a certified true copy of the memorandum & articles of association of the company and passport sized photograph(s) of each of the authorized signatory/ies signed across its face would also be necessary. In case power of attorney has been granted to any specific individual, an attested true copy of the same would be required to be submitted to MSEFSL. In addition, PAN No. of the corporate entity is required.

### **3.3. Policy for acceptance of a Authorised Person / Trading & DP Client**

- (i) In the case of a authorized person, an applicant would be considered for registration only if he fulfills the eligibility criteria specified by the MSEFSL, BSE, NSE, MCX and SEBI.
- (ii) The sole proprietor, designated partners or designated directors also have to submit experience certificate, indicating that they have adequate knowledge about the functioning of a stock exchange, stock broking firm or capital market. In the case of an individual trading member, minimum experience of three years is insisted upon, while in the case of partnership firm or company, each one of the designated partners or designated directors has to possess a minimum of two years experience.

Any person who can become a authorized person of MSEFSL is also required to maintain deposit as per the applicable norms, from time to time.

- (iii) In the case of a client wish to open his trading account through a authorized person of MSEFSL, introduction by the authorized person is mandatory and the details of the introducer should be completely filled in the Client Registration Document.
- (iv) Where it is found that the information submitted by the authorized person or the client is false, MSEFSL would forthwith stop the processing of the application for registration as a authorized person or client of MSEFSL. In case the applicant has already been registered with SEBI, then the regulator would be informed immediately about the same, with a request to cancel the registration and in case of a client, the transactions shall be stopped immediately.

### **3.4. Record keeping:**

- (i) All documents relating to registration of authorized persons and clients shall be preserved as long as he continues to be a authorized person / client.
- (ii) Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.
- (iii) Registered intermediaries shall maintain and preserve the record of documents evidencing the identity of its clients and beneficial owners (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.
- (iv) In a situation where the information is required for an ongoing investigation or a transaction or set of transactions have been flagged for suspicious transaction reporting, the information shall be retained until the concerned investigating authority confirms that the case is closed.
- (v) Registered intermediaries shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary.

### **3.5. Limit of cash transaction:**

The authorized persons of MSEFSL, as well as the trading clients, would be required to ensure that no cash transaction takes place. However, in exceptional circumstance the broker may receive the amount in cash, to the extent not in violation of the Income-tax provisions as may be in force from time to time.

### **3.6. Monitoring of securities transactions:**

- (i) The authorized persons will be advised to monitor the activities of their clients on a continuous basis, so that deviant transactions / activities can be flagged off for investigation.
- (ii) Authorized persons would be advised to pay special attention to complex or unusual transactions or trading patterns, which appear to have no economic purpose.

### **3.7. Monitoring of trading transactions:**

- (i) Trading involving a quantity of more than 0.5% of the number of equity shares of any Company would be taken up for further scrutiny and where necessary, for detailed investigation by the Registered Intermediaries.
- (ii) In the case of penny stocks (whose shares trade at less than 50% of the paid-up value of the share) trading for quantities above 1,00,000 shares would be taken up for further scrutiny by the Registered Intermediaries.
- (iii) The authorised persons should exercise utmost vigil over the transactions of the clients and inform MSEFSL immediately when there is any doubt / suspicion about the activities of their clients.

### **3.8. Designation of an officer for reporting suspicious transactions:**

The information relating to suspicious transactions or large transactions warranting further investigation would be forwarded to the Compliance Officer of MSEFSL on a daily basis. The company had designated Mr. L.Vishnuvarthan as the Principal Officer under the PMLA.

In addition to the existing requirement of designation of a Principal Officer, the registered intermediaries shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, and the company has appointed Mr. P.Kasthurirangan, as Designated Director under the applicable PML Rules

### **3.9. Hiring of Employees and their Training:**

- (i) The staff required for MSEFSL would be appointed by MSEFSL after proper screening. The authorized persons would be advised to put in place high standards for hiring employees.
- (ii) Key positions in MSEFSL would be identified and it would be ensured that the employees taking up these positions are suitable and competent to perform their duties.
- (iii) MSEFSL would provide training on Prevention of Anti-money Laundering Guidelines to all new recruits. The authorized persons would also be advised to have similar training programmes for their new employees.