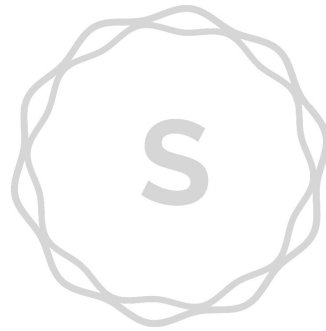


**Know Your Client and Prevention of Money Laundering Policies and  
Procedures**



**S H A N N O N**

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## **ANTI-MONEY LAUNDERING POLICY (AML)**

This policy is being formed in the light of SEBI Circulars-on Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) as amended – obligations of Intermediaries under the Prevention of Money Laundering Act, 2002 (“Act”) and Rules framed thereunder after making necessary amendments in the existing Anti-Money Laundering Policy of the Company.

In pursuance of the above said circular and the provisions of the Act, the policy of the company is to prohibit and actively prevent money laundering and any activity that facilitates money laundering or terrorist financing. Money Laundering (ML) is generally understood as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds or assets so that they appear to have been derived from legitimate origins or constitute legitimate assets.

### **Objectives of the Policy:**

To establish a framework for adopting appropriate Anti Money Laundering (AML) procedures and controls in the operations/ business processes of Shannon Advisors Private Limited.

To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/ laid down procedures.

To comply with the applicable laws and regulatory guidelines.

To take necessary steps to ensure that the concerned staff are adequately trained in KYC/AML procedures

### **Reporting to the Financial Intelligence Unit-India**

In terms to the PMLA rules, Compliance officer is required to report information relating to cash and suspicious transactions to the Director/ Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,  
Financial Intelligence Unit-India,  
6<sup>th</sup> Floor, Hotel Samrat,  
Chankyapuri,  
New Delhi-110021  
Website: <http://fiuindia.gov.in>

### **For Cash Transaction Reporting:**

Dealing in cash, if any requiring reporting to the FIU IND will be done in the CTR format and in the manner and at intervals as prescribed by the FIU IND.

## OVERVIEW

### 1. Introduction

#### **What is Money Laundering?**

**Money laundering** is a complex chain of activities whereby vast amount of money generated from illegitimate activities viz. selling of narcotic drugs, extortion, corruption, illicit dealing in weapons, human trafficking, etc. is put through a series of process so that it comes out at the other end as clean and legal money. Broadly, there are three processes to channel tainted money into the broad spectrum of the economy. They are:

- **Placement**—the physical disposal of cash proceeds derived from illegal activity. For e.g. depositing cash derived from illegal activity into Bank account or purchase high value goods such as diamond, etc.
- **Layering**—separating illicit proceeds from their source by creating complex layers of financial transactions designed to hamper the audit trail, disguise the origin of such funds and provide anonymity to their owners.
- **Integration**—placing the laundered proceeds back into the economy in such a way that they re-enter the financial system and appear to be legitimate business funds.

### 2. Regulatory Frame Work:

The Rules framed under the Prevention of Money Laundering Act, 2002 (“PMLA”) have been notified on and brought into force w.e.f. July 1, 2005. The Securities and Exchange Board of India (SEBI) has issued necessary directives vide its circulars from time to time, covering issues related to Know Your Client (KYC) norms, Anti-Money Laundering (AML), Client Due Diligence (CDD) and Combating Financing of Terrorism (CFT).

#### **Offence of Money Laundering**

Section 3 of the PMLA defines “Offence of Money Laundering” as an attempt to indulge or intentional assistance or intentional participation or involvement of a person in any process or activity connected with the proceeds of crime and projecting it as untainted money rendering it in legally usable form.

### **Obligations of Intermediary under PMLA**

As per the provisions of PMLA, all the intermediaries associated with Capital Market/ Commodity Market and registered with SEBI are required to:

- a) Maintain a record of the nature and value of such transactions as are prescribed in the rules notified there under. Such transactions include;
  - All cash transactions of more than Rs. 10 lakhs or its equivalent in foreign currency.
  - All series of cash transactions though valued below Rs. 10 lakhs or its equivalent in foreign currency, but integrally connected to each other and such series of transactions takes place in one calendar month.
  - 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;
  - All suspicious transactions whether made in cash or not and including, inter- alia, credits or debits from or into any non-monetary account such as demat account, security account maintained by the registered intermediary.
  - For the purpose of suspicious transactions reporting, apart from ‘transactions integrally connected’, ‘transactions remotely connected or related’ and attempted transactions should also be considered.
- b) Report such transactions to the Director, Financial Intelligence Unit (FIU).
- c) Verify and maintain the records of the identity of all the clients for the specified time period.

### **3. Statement of Policy**

The Objective of this Policy Statement is to have an adequate procedure to identify and report any suspicious transactions to the Regulatory Authority with a view to protect Shannon Advisors Private Limited. (hereinafter referred as the “Firm”), its employees, associates and clients from unintentional involvement in Money Laundering activity.

The Firm conducts its business in conformity with all laws and regulations of the jurisdictions in which it transacts its businesses. In order to ensure that the Firm meets its legal obligations, all the employees must be mindful of the problem of money laundering and constantly be vigilant for signs of such activity. Every effort must be made to "know" and verify the identity of the Firm's clients, to be aware at all times of what might constitute a suspicious transaction or suspicious counterparty behavior, to adhere to appropriate account opening, client dealing and record-keeping procedures, and to observe the procedure for reporting suspicious

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transactions laid out in this document.

It shall be the duty of all officers and employees to abide by this policy and to escalate and report anything which is inconsistent with the policy.

The policy and related documents shall be reviewed annually at the end of every calendar year.

#### **4. Applicability of the Policy & Procedures**

Under PMLA, the following Products & Services offered by us as a registered intermediary in the Securities Market, are covered:

1. Stock Broking
2. Depository Services
3. Portfolio Management Services
4. Research Analyst
5. Mutual Fund Distribution
6. Investment Adviser

### **GUIDELINES, POLICIES AND PROCEDURES**

The Firm has formulated the guidelines, policies and procedures to implement the anti-money laundering provisions as envisaged under PMLA. The same has been categorized as follows:

- Client Due Diligence (CDD)
  - Policy and Procedure for acceptance and identification of clients
  - Continuous Due Diligence
- Record Keeping & Retention of Record
- Monitoring of Transactions, Identifying Suspicious Transactions and Reporting the same
- Reporting requirement under Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standards (CRS)
- Roles & Responsibility of Designated Director and Compliance officer
- Staff Recruitment and Training Policy
- Penalties
- Internal Audit/Inspection

#### **CLIENT DUE DILIGENCE (CDD)**

The types of transactions a money launderer may use are almost unlimited, making it difficult to define a suspicious transaction. It is, however, reasonable to question a transaction, which may be inconsistent with an investor's known legitimate business or personal activities or with the normal business or financial assets/income for that type of investor. Hence, the first key to

recognition is to "Know Your Client".

Employees should be sensitive to potential warning signs of money laundering. When establishing a relationship, maintaining a relationship or providing services, especially when dealing with a client infrequently, all reasonable steps must be taken to determine, to verify and to remain apprised of the identity, financial position and business objectives of the client. Following safe guards need to be taken into consideration while accepting the clients.

- a) Obtain sufficient information to carry out client identification and due diligence before an account is opened to establish the beneficial ownership/controller of the account; Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.
- b) Verify and collect necessary documents as a proof of identity and address (as specified by SEBI/Exchanges/Depositories/ KRA/CERSAI) to verify the identity and address of the client.
- c) Verify the client's identity using reliable, independent source documents, data or information. Where the client purports to act on behalf of juridical person or individual or trust, the registered intermediary shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person.
- d) Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted.
- e) Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in this regards.
- f) Understand the ownership and control structure of the client.
- g) No account is opened in a fictitious/benami name or on an anonymous basis.
- h) No account is opened where the Firm is unable to apply appropriate due diligence measures/KYC requirement.
- i) Determine the circumstances under which the client is permitted to act on behalf of another person/entity.
- j) No account in the name of a person be opened if such person having known criminal background or is banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency.
- k) Risk perception of the client having regard to clients' location, nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken.
- l) Re-examine CDD process whenever there are suspicions of money laundering or financing of terrorism (ML/FT).
- m) Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the knowledge about the client, its business and risk profile, taking into account, where necessary, the client's source of funds
- n) Update periodically all documents, data or information of all clients and beneficial owners collected under the CDD process such that the information or data collected under client due

diligence is kept up-to-date and relevant, particularly for high risk clients.

- o) No transaction or account-based relationship shall be undertaken without following the CDD procedure.
- p) Specifically apply EDD measures, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF.
- q) Ensure to 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.  
“Non-profit organization” means any entity or organisation, constituted for religious or charitable purposes referred to in clause (15) of section 2 of the Income- tax Act, 1961 (43 of 1961), that is registered as a trust or a society under the Societies Registration Act, 1860 (21 of 1860) or any similar State legislation or a Company registered under the section 8 of the Companies Act, 2013 (18 of 2013).
- r) If there is suspicion 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 FIUIND.

In order to achieve the above, Employees need to adhere to the following procedure:

## **POLICY AND PROCEDURES FOR ACCEPTANCE AND IDENTIFICATION OF CLIENTS**

SEBI/ Exchanges/Depositories/KRA/CERSAI have prescribed the minimum requirements relating to KYC from time to time. Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI/Exchanges/Depositories/KRA/CERSAI from time to time, the Firm has framed its own internal guidelines based on the established practices.

The Firm’s policies and procedures regarding acceptance and identification of clients are as follows:

1. Ensure that either the client is physically present at the time of account opening or you must meet him/her.
2. Do not open any account of a person who has been convicted of an offence involving moral turpitude or having any criminal background and ensure that the identity of the client does not match with any person having known criminal background or is banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

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3. Obtain an authority letter from the client in favor of a person who is acting on behalf of the client.
4. Categorize the client based on the risk perception.
5. Obtain necessary proof of identity, proof of address and other documents as specified by SEBI/ Exchanges/Depositories/ KRA/CERSAI as listed in Annexure A appended hereto.
6. Carry out an In-person verification of the client through one of our employees or Authorised Persons either personally or through web camera.
7. If KYC verification of the client is carried out through Aadhaar based e-KYC service offered by UIDAI and verification of the client is carried out through biometric authentication (fingerprint or iris scanning), in such cases, in-person verification (IPV) of the client is not required to be carried out.
8. Permanent Account Number (PAN) is compulsory for all categories of clients, except for those which are specifically exempted by SEBI, for broking, PMS as well as for Depository Services. PAN verification must be done online at the Income Tax website without insisting on the original or copy of PAN card. A print out of the PAN details verified with Income tax website should be attached along with the Account Opening Form (AOF). *No other document including letter received from Income Tax department shall be accepted as a proof for PAN.*
9. Letter issued by Unique Identification Authority of India (UIDAI) containing details of name, address and Aadhaar number, can be accepted as a document for client identification.
10. As per the provisions of Income-tax Act, 1961 (Income Tax Act), the PAN allotted to a person shall become inoperative if it is not linked with Aadhaar. Since PAN is the key identification number and part of KYC requirements for all transactions in the securities market, all registered intermediaries shall ensure valid PAN in the KYC documentation for all clients.
11. Name of the client on the AOF should match with the Name mentioned on Income Tax website, Proof of identity and address.



12. For opening a brokerage account in MCX and NCDEX it is mandatory to collect and upload the Mobile number of the clients in the UCC database of the Exchange.
13. The Firm shall upload the details of mobile number and email address on the KRA system. It shall be ensured that the mobile number/email addresses of their employees/authorized persons, distributors etc. are not uploaded on behalf of clients
14. Separate Mobile no. and email id should be captured for each client. However, on specific written request of the client the same mobile no or email id can be captured for more than 1 client subject to the client belongs to one family where family would mean self, spouse, dependent children and dependent parents.
15. In cases where clients do not have mobile number (in case of opening an account in BSE/NSE/MCX/NCDEX/NSDL/CDSL/) or email id, you are requiring to obtain a declaration from the client to this effect and report the same in UCI online in the manner as prescribed by the Exchange.
16. Obtain necessary details/ certification /confirmation from the client to confirm the client as per the applicable FATCA/CRS rules in India as notified by Government of India (GOI)/ Central Board of Direct Taxes (CBDT) / Securities and Exchange Board of India (SEBI) / Reserve Bank of India (RBI).
17. In case of NRI clients, Foreign Nationals and Authorised Signatory of Foreign Companies, if you are unable to verify the photocopies with the originals, then all photocopies of proof of identity and address should be properly attested by authorized officials of overseas branches of Scheduled Commercial Banks registered in India/ Notary Public/ Court Magistrate/ Judge/ Indian Embassy /Consulate General in the country where the client resides.
18. In case of non-individual clients, obtain copy of the documents such as Memorandum & Articles of Association, Certificate of Incorporation, Partnership Deed, Trust Deed, etc. duly certified by the Directors/Partners/Trustees/Authorised signatories as applicable.
19. For registered trust obtain the registration certificate issued by a Statutory Authority under the provisions of the Bombay Public Trust Act, 1950 or The Indian Societies Registration Act, 1860 or under the provisions of a state Act such as Bombay Public Trusts Act, 1950 or the relevant State Public Trust Act or a copy of Registration Certificate issued by the Income Tax Authorities as per Section 12AA of Income Tax Act, 1961.
20. Obtain all the required bank details for initiating electronic fund transfers viz., through National Electronic Funds Transfer (NEFT), Real Time Gross Settlement (RTGS), etc. from new clients and update for existing clients
21. In case of change of address of the client, obtain the written application for change of address from the client, proof of new address along with the original document of the new address for verification. In case of change (addition/ deletion/ modification) in the landmark details for the address, changes to the landmark details can be limited after obtaining a request from the clients on a plain paper signed by all the holders. However, in case of any change in the details available in the KRA/CERSAI download, such changes shall not be carried out in our records unless the

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client provides a written request for the same along with the proof for carrying out necessary changes in the system.

22. Status of Aadhaar and PAN linkage shall be flagged at the system of KRA.
23. Obtain necessary Board Resolution, authority letter, etc. in favour of the person who will be acting on behalf of the Non-Individual client.
24. In case of non-individual clients, verify the photocopies of proof of identity and address of Authorised Signatory with original.
25. To identify the beneficial owners of the client and take reasonable measures to verify 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.
26. Identify the natural person, who whether acting alone or together, or through one or more juridical person has a controlling ownership interest of more than 10% of shares or capital in case of company, more than 10% of the capital or profits in case of partnership firm and more than 15% the property or capital or profits in case of unincorporated association or body of individuals. In cases where there are doubts about the beneficial ownership as specified above, the person can be identified as one who exercises control through other means such as voting rights, agreement and arrangements. Even if it fails to provide clarity on the beneficial owner, then the senior managing official of the entity will be identified as the beneficial owner. Where no natural person is identified as above, the beneficial owner is the relevant natural person who holds the position of senior managing official.
27. In case of trust, identify the beneficiaries through the identity of the settler of the trust, the trustee, the protector, and the beneficiaries with 10% or more interest in the trust.
28. In case of a Trust, it shall be ensured that trustees disclose their status at the time of commencement of an account-based relationship.
29. Where the client or the owner of the controlling interest is an entity listed on a stock exchange in India, or it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions notified by the Central Government, or it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.
30. Where there are no records of the identity of its existing clients, it shall obtain the records forthwith, failing which the account of the clients shall be closed after giving due notice to the client.
31. In case of Power of Attorney operated account, collect proof of identity and address of POA Holder after due verification with original.
32. Wherever applicable obtain details of Custodian with whom Client's trades are required to be settled.

33. Verify photocopies of all the documents with originals. In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents viz Notary Public, Gazetted Officer, Manager of a Scheduled Commercial/ Co-operative Bank or Multinational Foreign Banks (Name, Designation & Seal should be affixed on the copy). Also ensure that the details such as name of the person doing In-Person Verification (IPV), his designation, organization, along with his signatures and date are recorded on the KYC form at the time of IPV.
34. In case of Individual clients, conduct signature verification by verifying as available on proof of identity/address or by collecting a cheque from client in the name of the Firm. Signature on the proof of identity/address or cheque and on the Account Opening Form must match or as available on any of the documents of proof of identity or address.
35. Ensure that no account is opened where due diligence of the client and/or applying sufficient KYC policies is not possible. This may be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided is suspected to be non-genuine, or there is perceived non-co-operation of the client in providing full and complete information.
36. Any change in the client details such as address, bank details, etc. should be backed by written request from the client signed by all the account holders supported with a proper proof and the same should be collected after due verification with the original.
37. In case where client is introduced by registered Authorised Person, he shall undertake verification process as mentioned above.
38. To the extent possible collect the information in relation to client's occupation, source of Income, Investment portfolio of the client (obtain copy of demat statement), other information indicating financial strength of the client viz, vehicle owned, property owned, details of club membership, family back ground, etc.
39. In case of non-individual client, collect a certified copy of Annual Balance Sheet with Profit & Loss account for last two years.
40. Upload the KYC data pertaining to all new individual accounts opened on or after April 1, 2016 and KYC data pertaining to all new legal entities account opened on or after April 01, 2021 along with the KYC data of related person of legal entities with CKYCR in terms of the provisions of the Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
41. The Firm shall ensure that all existing KYC records of legal entities and of individual clients are uploaded on to CKYCR when the updated information is obtained/received from the client.
42. **Digital KYC and Video based Client Identification Process (V-CIP)**

The Firm may also provide an option to the prospective clients to complete their KYC through "Digital KYC" and "Video based Client Identification Process (V-CIP)" as per the process defined in Prevention of Money-laundering (Maintenance of Records) Third Amendment Rules, 2019.

**“Digital KYC”** means the capturing live photo of the client and officially valid document or the proof of possession of Aadhaar, where offline verification cannot be carried out, along with the latitude and longitude of the location where such live photo is being taken by an authorised officer of the Firm as per the provisions contained in the PMLA.

**“Video based Client Identification Process (V-CIP)”**: a method of client identification by an official of the Firm by undertaking seamless, secure, real-time, consent based audio-visual interaction with the client to obtain identification information including the documents required for CDD purpose, and to ascertain the veracity of the information furnished by the client.

#### **43. Uniform KYC Format**

The Firm shall perform KYC in securities market through physical mode/ digital (online or app based) mode. To bring about uniformity in securities market, all SEBI registered intermediaries shall use the same KYC form and supporting documents. Foreign Portfolio Investors and Eligible Foreign Investors shall be guided as per provisions of SEBI Circular SEBI/HO/AFD-2/CIR/P/2022/175 December 19, 2022 and amendments thereto. The account opening form (AOF) for client shall be divided into two parts. Part I of the AOF shall be the KYC form which shall capture the basic details about the client. For this purpose, all registered intermediaries shall use the KYC templates provided by Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI) for individuals and for legal entities for capturing the KYC information. Part II of the form shall obtain the additional information specific to the area of activity of the intermediary, as considered appropriate by them.

#### **44. KYC for SARAL Account Opening Form for resident individuals**

For individual clients participating in the cash segment without obtaining various other facilities such as internet trading, margin trading, derivative trading and use of power of attorney, the requirement of submission of ‘proof of address’ shall be as follows: a. Individual client may submit only one documentary proof of address (either residence/correspondence or permanent) while opening a trading account and / or demat account or while undergoing updation. b. In case the proof of address furnished by the said client is not the address where the client is currently residing, the intermediary may take a declaration of the residence/correspondence address on which all correspondence shall be made by the intermediary with the client. No proof is required to be submitted for such correspondence/residence address. In the event of change in this address due to relocation or any other reason, client may intimate the new address for correspondence to the intermediary within two weeks of such a change. The residence/ correspondence address and any such change thereof may be verified by the intermediary through ‘positive confirmation’ such as (i) acknowledgment of receipt Welcome Kit/ dispatch of contract notes / any periodical statement, etc. (ii) telephonic conversation; (iii) visits, etc. c. The registered intermediaries shall forward the KYC completion intimation letter through registered post/ speed post or courier, to the address of the client in cases where the client has given address other than as given in the officially valid document. In such cases of return of the

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intimation letter for wrong / incorrect address, addressee not available etc, no transactions shall be allowed in such account and intimation shall also send to the Stock Exchange and Depository. d. The registered intermediaries and KRAs shall flag such accounts in their records/systems.

#### **45. Digitally signed Application Form**

An option is provided to the prospective clients to complete their Application Form digitally by availing e-signature signing facility made available by the Firm. The Firm avails the E-Signature facility from the Certifying Authority, duly appointed and authorized by Controller of Certifying Authorities, who makes available E-signature of an individual using AADHAR based OTP authentication from the said individual. The Firm shall follow the guidelines issued by SEBI/Stock Exchanges/Depositories in this regard from time to time.

#### **46. Do It Yourself Client Accounts (Digital Accounts)**

For Digital Accounts opening directly by the client, the Firm must be ensuring the following requirements:

The investor visits the website/App/digital platform of the Firm and fills up the online KYC form and submits requisite documents online. The App shall also have features of random action initiation for investor response to establish that the interactions not pre-recorded, time stamping, geo-location tagging to ensure physical location in India. The App shall carry out the liveness check in order to guard against spoofing and such other fraudulent manipulations.

The name, photograph, address, mobile number, email ID, Bank details of the investor shall be captured online and OVD / PAN / signed cancelled cheque shall be provided as a photo / scan of the original under eSign and the same shall be verified as under:

- a. Mobile and email is verified through One Time Password (OTP) or other verifiable mechanism. The mobile number/s of investor accepted as part of KYC should preferably be the one seeded with Aadhaar.
- b. Aadhaar is verified through UIDAI's authentication / verification mechanism. Further, in terms of PML Rule 9 (16), the Firm shall, where the investor submits his Aadhaar number, ensure that such investor to redact or blackout his Aadhaar number through appropriate means. The Firm shall not store/ save the Aadhaar number of investor in the system. e-KYC through Aadhaar Authentication service of UIDAI or offline verification through Aadhaar QR Code/ XML file can be undertaken, provided the XML file or Aadhaar Secure QR Code generation date is not older than 3 days from the date of carrying out KYC.
- c. PAN is verified online using the Income Tax Database.
- d. Bank account details are verified by Penny Drop mechanism or any other mechanism using API of the Bank. (Explanation: based on bank details in the copy of the cancelled cheque provided by the investor, the money is deposited into the bank account of the investors to

fetch the bank account details and name.) The name and bank details as obtained shall be verified with the information provided by investor.

- e. Any OVD other than Aadhaar shall be submitted through Digilocker / under eSign mechanism.

“Officially Valid Documents” (OVD) means the following:

- i. the passport,
- ii. the driving licence,
- iii. proof of possession of Aadhaar number,
- iv. the Voter's Identity Card issued by Election Commission of India,
- v. job card issued by NREGA duly signed by an officer of the State Government and
- vi. the letter issued by the National Population Register containing details of name, address, or any other document as notified by the Central Government in consultation with the Regulator.
- vii. A document shall be deemed to an officially valid document even if there is a change in the name subsequent to its issuance provided it is supported by a Marriage Certificate issued by the State Government or a gazette notification, indicating such change of name.

#### 47. Obtaining Aadhaar Copy of the client

- Obtaining Aadhar Number/copy is optional till it is mandated by the regulators.

48. Redact or blackout the Aadhaar number from KYC, DKYC and wherever appearing in the documents submitted by the client.

#### Note:

- While undertaking document verification it is not your responsibility to comment on the validity of the issuance of the document by the concerned authority. But it is your responsibility to carry out necessary due diligence to establish that client is genuine.

While opening an account of the client, if the CDD has been done by the holding company/subsidiary company/group company of the Firm or by any of the banking company, financial institutions or SEBI registered intermediary, which are also required to comply with the provisions and obligations under the PMLA, then the same shall be relied upon. However, such reliance shall be subject to the following:

- ✓ it shall be satisfied that all documents as required, pertaining to CDD are available from the third party upon request without delay;
- ✓ such third party is not based in a country or jurisdiction assessed as high risk;
- ✓ it continues to remain responsible for CDD and undertaking enhanced due diligence measures, as applicable.



- The information collected from the client for the purpose of opening of account should be kept as confidential and not divulge any details thereof for cross selling or any other purposes.

## **CLIENT CATEGORISATION:**

It is generally recognized that certain clients may be of a high risk, medium risk or low risk category depending on circumstances such as the client's background, clients' location, type of business relationship or transaction, trading turnover, manner of making payment for transactions undertaken etc. Therefore we need to categorize the clients by applying Risk Based Approach. The basic principle enshrined in this approach is that the Firm has an enhanced client due diligence process for high risk categories of clients and conversely, a simplified client due diligence process for lower risk categories of clients. Broadly, the clients are categorized in following categories:

### **1. Low Risk Clients**

Low risk clients are those clients who, without any hesitation and delay, provide all the required documents at the time of account opening and whose identity can be established easily (including where the ability to confirm identity documents through online or other services offered by issuing authorities is possible).

### **2. Medium Risk Clients**

Medium risk clients are those clients against whom certain surveillance alerts are triggered.

### **3. High Risk Clients**

Clients who are trading in high volumes and frequently come under Surveillance Alerts where the trading pattern of such clients arouses suspicion, may be categorized as High Risk clients.

## **Clients of Special Category (CSC): Such clients include the following:**

- 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) of foreign origin: PEP are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. Where an existing client or the beneficial owner of an existing account, becomes a PEP, then, approvals of senior management needs to be obtained to continue the business relationship. These additional norms applicable to PEP shall also be applied to the accounts of the family members or close relatives of PEPs.
- Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such

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- individuals have interest or significant influence)
- g. Companies offering foreign exchange
  - h. Clients in high risk countries where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent, Countries that do not or inadequately apply the FATF Recommendations, Countries where no bilateral Memorandum of Understanding with Securities Regulators by SEBI.
  - i. Non face to face clients
  - j. Clients with dubious reputation as per public information available, etc.

The above is not exhaustive but an indicative list. Based on the situation and by applying best judgment more clients can be defined under this category.

Clients who fall under clients of Special Category as identified above and if circumstances warrant for taking extra precaution while dealing with such clients then such clients may be categorized in High Risk category.

A client against whom any regulatory order is passed imposing prohibition from accessing capital market/ Commodity Market, then such a client will automatically be black listed and no further trading or transactions should be undertaken/done for such a client until ban period is completed or the order imposing the ban is revoked by SEBI.

**Further, client once categorized as low risk client can be later categorized as medium or high risk and vice versa depending on the nature of transactions and client behavior and employee's dealing experience with his clients.**

The Low risk provisions shall not apply whenever there are suspicions of money laundering or financing of terrorism or when other factors give rise to a belief that the client does not in fact pose a low risk.

All relevant and necessary information will be sought from the client. It shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.

#### **CONTINUOUS DUE DILIGENCE:**

- Keep yourself updated about the financial soundness of client, to ensure that the transactions are consistent with the profile of the client;
- Maintain continuous familiarity and follow up with clients where any inconsistency in the information is provided;
- Immediately inform the respective Heads of Departments about any transactions which are inconsistent with clients' regular trading activity or if funds and securities/commodities are

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coming from account other than the account(s) specified by client and also if you receive the request to transfer funds or securities/commodities to accounts other than the designated accounts.

- You need not stop doing business with clients whose transactions may be suspicious transactions unless confirmed by Compliance Department
- You need not tip off any client about the suspicious transactions. It is an offence under law. This Confidentiality requirement does not inhibit information sharing among entities in the group.
- You should update all documents, data or information of all clients and beneficial owners collected under the CDD process periodically.

## **RECORD KEEPING AND RETENTION OF RECORDS**

### **• Record Keeping**

Ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PML Act, 2002, Prevention of Money- Laundering (Maintenance of Records) Amendment Rules, 2013 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

The objective to maintain a record is to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior. To provide audit trails to authorities for potential money laundering activities, following information, inter alia, should be retained:

- (a) details of the beneficial owner of the account;
- (b) the volume of the funds flowing through the account; and
- (c) for selected transactions:
  - the origin of the funds, if available;
  - the form in which the funds were offered or withdrawn, e.g. cash, cheques, Demand Drafts, etc.
  - the identity of the person undertaking the transaction;
  - the destination of the funds;
  - the form of instruction and authority

Records that need to be maintained, inter alia, are as follows:

- Client Account Opening Form
- Agreements executed with the clients
- Proof of Identity and Address of clients, Authorised Persons of the clients
- Proof of Bank and Demat Accounts
- Ledger accounts
- Securities/Commodities Transaction Registers
- Duplicate of the contract notes
- All correspondence with clients
- Record of all transactions entered with clients
- Transaction statement of clients

Records as permitted under regulations, can be maintained in hard as well as soft form also. Operations department must ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities.

- **Retention of records**

- All Records/ documents on transaction as mentioned above as well as required under extant SEBI Act/ PMLA and rules/regulation framed there under or of the exchanges must be preserved for 8 years (or for such other period as may be specified by depositories/SEBI/any other regulatory/statutory authority from time to time) from the date of transactions with the client and Records evidencing the identity of its clients as well as account files and business correspondence shall be maintained and preserved for a period of 8 years (or for such other period as may be specified by depositories/SEBI/any other regulatory/statutory authority from time to time) from the date of termination of an account or business relationship with the client, whichever is later.
- Documents like, agreement, proof of identity and address obtained at the time of opening the account and during the course of business relationship should be preserved for 8 years (or for such other period as may be specified by depositories/SEBI/any other regulatory/statutory authority from time to time) after the business relationship is ended.
- If any proceeding is pending against the client conducted by any authorities or where an investigation is going on or transactions which have been the subject of a suspicious transaction reporting, the records and documents pertaining to such transaction/ client needs to be preserved till the disposition of proceeding i.e., until it is confirmed that proceeding is closed/disposed;
- For accounts, which are frozen, on receiving order from authorities, all documents relating to that account needs to be preserved until final disposition of case to the satisfaction of authorities.

## **MONITORING OF TRANSACTIONS, IDENTIFYING SUSPICIOUS TRANSACTION AND SUSPICIOUS TRANSACTION REPORTING**

Regular monitoring of transactions plays a vital role for ensuring effectiveness of the Anti Money Laundering procedures. This will be possible only if you have an understanding of the normal activity of the client so that you can identify the deviant transactions / activities.

Special attention needs to be paid to all complex, unusually large transactions / patterns which appear to have no economic purpose. Risk Management Department may specify internal threshold limits for each class of client accounts and pay special attention to the transaction that exceeds these limits. In case of clients who have been categorized as High Risk Client, a special attention must be given while executing transaction on their behalf.

In case the client proposes to undertake high value transactions in MCX/NCDEX, Risk/RM should obtain information (i.e. one time at the time of acceptance of client) on the purpose and intended nature of the business relationship.

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### **Suspicious Transaction**

As defined under PMLA Rules, 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 *bona fide* purpose; or
- (d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;

Broad categories of reasons and examples of suspicious transactions are indicated as under:

#### **Identity of Client**

- False identification of documents
- Identification of documents which could not be verified within reasonable time
- Clients whose identity verification seems difficult or clients that appear not to cooperate
- No face to face interaction with the client
- Doubt over the actual beneficiary of the account
- Accounts opened with names very close to other established business entities
- Not providing proof of identity & address easily and avoid meeting with the employees.
- Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions. Employees should be extra careful about the clients belonging to countries, which are tax havens and a possibility of evasion of tax or terrorist activities or drug trafficking or countries where there is high political instability, high level of corruption and/ or cash is normal medium of exchange.
- Changes address/mobile/home/office telephone numbers frequently
- Generally uses post box address or general address instead of personal address
- Client continuing with same address but changes the name involved
- Client does not want correspondence at residence address without any valid reason
- An unusual and unnecessary involvement of an intermediary

#### **Suspicious Background**

- Suspicious background or links with known criminals
- Associated with persons/ entity against whom any regulatory orders are passed giving warning, suspending/ barring from accessing capital/commodities market

#### **Multiple Accounts**

- Large number of accounts having a common account holder, introducer, authorized signatory, address and/or bank account with no rationale

- Unexplained transfers between multiple accounts with no rationale

### **Activity in Accounts**

- Unusual activity compared to past transactions
- Use of different accounts by client alternatively
- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared business
- Conducting circular trading
- Insistent on transaction being done quickly
- Unusual transactions by Clients of Special Category (CSCs) and businesses undertaken by shell corporations, offshore banks /financial services, businesses reported to be in the nature of export-import of small items
- Frequently making payment by way of Demand Draft (DD)/ Pay Order without providing proof of source of fund.
- Investor city is different from city of DD

### **Nature of Transactions**

- Unusual or unjustified complexity
- No economic rationale or bonafide purpose
- Source of funds are doubtful
- Appears to be case of insider trading
- Investment proceeds or securities transferred to a third party with or without any known connection to our clients. For e.g. Unusual or too many off market transfer request.
- Transactions reflect likely market manipulations
- Transferring large sums of money to or from overseas locations with instructions/request for payment in cash
- High trading in illiquid scrip/contract or Scrip of Z or T Group.
- Trades wherein client has booked unusual profit or loss which is not commensurate with the changes in the prices of underlying security in the cash segment or with the spot prices of underlying commodities.
- Matched Market trades in relatively less active scrip/commodity future.
- Substantial increases in business without apparent cause

### **Value of Transactions**

- Multiple transactions of value just under the reporting threshold amount in an apparent attempt to avoid reporting
- Large sums being transferred from overseas for making payments
- Inconsistent with the client's apparent financial standing
- Inconsistency in the payment pattern by client
- Block deal which is not at market price or prices appear to be artificially inflated/ deflated

Note: The list as indicated above is only an indicative list. Based on situation, many more transaction could be identified as suspicious transactions.

The Firm has an obligation to report suspicious transaction to the appropriate law authority. Suspicious transactions should therefore be regularly reported to the Compliance officer/Compliance.

### **List of Designated Individuals/Entities**

An updated list of individuals and entities, which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at <https://www.un.org/securitycouncil/content/un-sc-consolidated-list>

Further, the list of designated individuals/entities under the Combating Financing of Terrorism (CFT) under Unlawful Activities (Prevention) Act, 1967 ("UAPA") shall be provided by SEBI, exchanges/depositories on regular basis.

Operations department must ensure that accounts are not opened in the name of anyone whose name appears in the said list. Further, Operations department must continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to the Compliance Department for necessary action in this regard. Further the above list shall be maintained and updated by Operations department electronically as and when received from the concerned authorities.

Further, the money laundering and financing of terrorism (ML/FT) risk posed by certain countries is periodically published by Financial Action Task Force (FATF) This list will be accessed from its website at [www.fatf-gafi.org](http://www.fatf-gafi.org). The clients from these countries will be classified as High Risk and will be closely monitored.

### **Procedure for freezing of funds, financial assets or economic resources or related services of individuals/ entities subject to the Combating Financing of Terrorism (CFT) under Unlawful Activities (Prevention) Act (hereinafter referred to as "designated individuals/entities"):**

The Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the **designated individuals/ entities**, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the **designated individuals/ entities** or any other person engaged in or suspected to be engaged in terrorism.

### **Obligation on the Firm upon receipt of the list of designated individuals/entities from SEBI, the Stock Exchanges/Depositories:**

- To maintain updated list of designated individuals/entities in electronic form and run a check on a regular basis to verify whether the designated individuals/entities are holding any funds, financial assets or economic resources or related services held in the form of securities with the Firm.
- To leverage latest technological innovations and tools for effective implementation of name screening to meet the sanctions requirements.
- In the event, particulars of any of client/s match the particulars of designated individuals/entities, the Firm shall immediately, not later than 24 hours from the time of finding out such client, inform full particulars of the funds, financial assets or economic resources or related services held in the form of securities, held by such client with the Firm to the Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No.011-23092569, over telephone on 011- 23092736 and by way of e-mail at jsis@nic.in.
- The Firm shall send the particulars of the communication mentioned above through post/fax and through e-mail (sebi\_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Officer on Special Duty, Integrated Surveillance Department, Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4-A, “G” Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051 as well as the UAPA nodal officer of the state/UT where the account is held, as the case may be, and to FIU-IND.
- In case the aforementioned details of any of the clients match the particulars of the designated individuals/entities beyond doubt, the Firm would prevent such **designated individuals/entities** from conducting financial transactions, under intimation to Joint Secretary (IS.I), Ministry of Home Affairs (“MHA”)
- The Firm shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts of the **designated individuals/entities** carried through or attempted.
- If an order is passed by Division of MHA to freeze the assets of the **designated individuals/ entities** under section 51A of the UAPA, necessary action shall be taken by the Firm in this regard.
- Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned/held by them has been inadvertently frozen, shall move an application giving the requisite evidence, in writing, to the nodal officer of IS-I Division of MHA through the concerned stock exchanges/depositories and the Firm. If the nodal officer of IS-I Division of MHA is satisfied, he shall pass an order, within fifteen working days, unfreezing the funds, financial assets or economic resources or related services, owned/held by such applicant under intimation to the concerned stock exchanges, depositories and registered intermediaries. However, if it is not possible for any reason to pass an order unfreezing the assets within fifteen working days, the nodal officer of IS- I Division shall inform the applicant.

**Your obligations for reporting suspicious transaction to Compliance officer/  
Compliance are as follows:**

- Any transaction/ order which appears to be an irregular transaction or gives rise to any suspicion should be diligently and immediately informed to Compliance/ Compliance officer or any other designated officer within the Firm.

- All documents, details, etc. related to any suspicious transactions including the one which is reported to the Director, FIU-IND should be preserved for 8 years from the date of the transaction between the client and the Firm.
- The notification may be made in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion.
- It shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client should not be told of the report/suspicion.
- In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions.

List of black listed clients can be accessed from SEBI/ Exchanges web sites. Whereas no trading shall be done for clients mentioned under the black list, it is also important to be extra vigilant while dealing with the clients involved in suspicious transactions.

All the persons who are debarred by SEBI/Exchanges to access capital/commodities market and any client against whom the Firm has reported to authorities for alleged money laundering activities and matter is still pending before the order is passed against/ in favour of the client will be black listed clients.

Reporting of suspicious transaction to Compliance department shall be done in Annexure B

#### **REPORTING REQUIREMENT UNDER FOREIGN ACCOUNT TAX COMPLIANCE ACT (FATCA) AND COMMON REPORTING STANDARDS (CRS)**

The Designated Director and the Compliance officer shall ensure compliance with the requirements under the FATCA and CRS.

The Firm shall register itself as Reporting Financial Institution and shall submit online reports, if required, with the Income Tax Department

#### **COMPLIANCE OFFICER**

For ensuring proper discharge of legal obligations and to report suspicious transactions to the authorities, the Firm has appointed a money laundering reporting officer known as the Compliance officer.

The Compliance officer along with other senior management shall, from time to time, take such steps as may be required to help and assist the employees to identify the suspicious persons and transactions.

The Compliance officer shall be responsible for assessing potentially suspicious transactions and reporting all suspicious transactions to the FIU.

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In the absence of Compliance officer, the Designated Director shall be responsible for reporting and assessment.

### **DESIGNATED DIRECTOR**

The Firm has also appointed a Designated Director who shall be responsible for ensuring overall compliance of the obligation of the Firm under PMLA and the rules framed there under.

### **STAFF RECRUITMENT AND TRAINING POLICY**

HR department need to verify the credentials of employees by conducting independent verifications and also by conducting verification on electronic database subscribed by the Firm. In case any negative observation found on such verification, then that need to be escalated to compliance department for their review.

All the Employees of the Firm including new joiners are to undergo training to be aware of the policies and procedures relating to prevention of money laundering, provisions of the PMLA and the need to monitor all transactions to ensure that no suspicious activity is being undertaken under the guise of money changing. Some key areas that may be covered under such training includes;

- The steps to be taken when the employees come across any suspicious transactions such as asking questions about the source of funds;
- Checking the identified documents carefully, reporting immediately to the Compliance officer, etc.;
- Ongoing training program for consistent implementation of the AML measures.
- A regular channel of communication with staff through periodic newsletter, circulars. etc.;
- Conducting review of applicable money laundering laws and recent trends in money laundering activity as well as the policies and procedures to combat money laundering, including how to recognize and report suspicious transactions.

The training module/session will include topics like Importance of AML and KYC measures-Know your client/employee concept-Account opening procedures, verification of identity, proper introduction, Maintenance of client profile and updation-maintenance of records-suspicious activities-High, low risk categories of transactions, fund transaction- Role of Compliance officer-Reporting procedure etc.

#### **Client/Investors awareness**

An awareness will be created amongst the clients/investors about the Money laundering and requirement there under through a note in the KYC form and also by regular channel of communication in the form of circulars, e-mailers, etc.



## **PENALTIES**

Money laundering and the facilitation of money laundering (including the failure to report suspicious transactions) are criminal offences under many laws under which the Firm and its employees may have dealings. It may be punishable with rigorous imprisonment for individuals and/ or a fine. If the employee has any suspicion, and if he/she reports the same to the Firm, the employee shall be deemed to have fulfilled his/her obligation under the law.

## **INTERNAL AUDIT/INSPECTION**

- a) An independent evaluation of the controls for identifying 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, identification of suspicious transaction, etc. should be carried out at a regular basis by the internal audit function/compliance, which will have adequate resources to carry out the evaluation. The Internal Audit/ Compliance will monitor and implement the policy guidelines in letter and spirit through inspection mechanism and organization and methods.
- b) Compliance/internal auditors must specifically scrutinize and comment on the effectiveness of the measures taken in adoption of KYC norms and steps towards prevention of money laundering. Such evaluation report should be placed before the Senior Management of the Firm and same shall be made available to competent authorities and self-regulating bodies, as and when required.

S H A N N O N

**Annexure A**

**Format For Reporting Suspicious Transaction**

**Name of Client:**

**Client Code:**

**Name of Relationship manager:**

1. Briefly describe nature of suspicion? And what led to your suspicion?


2. Tick whichever is applicable

- a. Related to settlement of funds
- b. Related to settlement of securities
- c. Change in investment/trading pattern
- d. Change in personal information of client
- e. Others (please specify)

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3. Is it a continuing behavior or a single instance?


4. Time range-when the instance happened?

- a. 1days
- b. 1 week
- c. 1 month
- d. Older

5. Have you taken up the matter earlier? When and with whom?


6. Have you in anyway alerted/indicated client about your suspicion?


7. Have you ever-discussed matter with anybody besides your manager? Give name of person, relationship and nature of discussion?


8. Any other information you would provide?


9. Would you like your name to be disclosed to others in organization in this regard?


10. Source of your information?


11. Any other occasion /instance you would like to mention?
