

**VSE Stock Services Ltd**

**Client Acceptance Policy  
&  
"ANTI MONEY LAUNDERING" MEASURES**

Approved by the Board of Directors on 15<sup>th</sup> June, 2011



## Table of Contents

Sr. No.	Subject	Page
	The Background	
	Preamble	
1	The Objective	
2	The Approach	
3	Risk Classification	
	- High Risk	
	- Low Risk	
4.	<b>Client Acceptance Policy And Identification Procedure:</b>	
	- Client Acceptance Policy (CAP)	
	- Know Your Client Standards – Identification Of Client	
	- Client Identification Procedure	
	- Documentation Requirement	
	A. Individual / Sole Proprietorship	
	B. HUF	
	C. Non Resident Individuals	
	D. Occupation	
	E. Non- Individuals	
5.	<b>On-Going Monitoring Process:</b>	
	- Indicative List Of Suspicious Activities	
	- Internal Reporting Of Suspicious Transactions	
	- Scope Of Internal Audit To Be Enhanced	
	- Principal Officer (Po)	
	- Reporting Procedures	
6.	<b>Awareness</b>	
	- Training And Awareness	
7.	<b>Record Maintenance</b>	
8.	<b>Review Of This Policy</b>	



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## THE BACKGROUND

1.1. SEBI has issued guidelines on Know Your Client (KYC) standards and AML (Anti-Money Laundering) Standards vide its circular dated January 18, 2006. The Guidelines issued with the circular are in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering standards. Compliance with these standards by all capital market intermediaries registered with SEBI has become imperative. These Guidelines lay down the minimum requirements / disclosures to be made in respect of clients. SEBI vide its circular no. ISD/CIR/RR/AML/2/06 dated March 20, 2006 has further issued guidelines with respect to Maintenance and Preservation of records of transactions, information to be maintained, reporting to Financial Intelligence Unit – India. This policy document is based on the SEBI Guidelines/Circular no. ISD/CIR/RR/AML/2/06 dated March 20, 2006 and master circular no. ISD/AML/CIR-1/2010 dated 12<sup>th</sup> February, 2010 at places to suit specific requirements of the Company.

## PREAMBLE

Through the following Policy Guidelines, the Company stands committed to –

- (a) Accept only those clients whose identity is established by conducting due diligence appropriate to the risk profile of the client.
- (b) Record and preserve audit trail for the transactions conducted by Clients to facilitate investigation.
- (c) Report to Financial Intelligence Unit – India, or any other agency designated by Securities and Exchange Board of India or Government of India, the details of transactions of all or selected clients if and when requested or at regular frequency as may be suggested by such agencies, and
- (d) Cooperate with investigative agencies / law enforcement agencies in their efforts to trace the money laundering transactions and persons involved in such transactions.

### 1. The Objective

1.1. "Money laundering" is the process by which persons with criminal intent or persons involved in criminal activity attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities, thereby avoiding prosecution, conviction and confiscation of the criminal funds. The term "Money Laundering" is also used when the funds are used for terrorist financing though the origin of the funds may be legitimate.

1.2. The objective is to have in place adequate policy, practice and procedure that promote professional standards and help to prevent the Company from being used, intentionally or unintentionally for money laundering. KYC Standards and AML Measures would enable the Company to know/ understand its clients, the beneficial owners in case of non-individual entities, the principals behind clients who are acting as agents and their financial dealings better which in turn will help the mutual fund to manage its risks prudently.



## 2. The approach:

2.1. The approach towards KYC Standards is based on risk perception and money laundering threats that may be posed by different types of clients. The Company shall be largely guided by the KYC standards prescribed by SEBI for Stock Brokers.

2.2. KYC Standards & AML measures involve a client acceptance policy and client identification programme that involves enhanced due diligence for higher risk accounts, and includes account monitoring for suspicious activities. These standards constitute an essential part of risk management by providing the basis for identifying and controlling risk exposures, which the Company takes to protect itself and its genuine clients from the risks arising out of suspicious transactions/ risky clients.

### 2.3. The KYC Standards centre on the following four key elements:

(i) Risk classification (ii) Client Acceptance Policy and identification procedures, (iii) On-going Monitoring Processes and (iv) Reporting

### 2.4 Other AML Measures

(i) Client education and awareness, (ii) Channel partner education and awareness (iii) Staff education and awareness

## 3. Risk Classification:

3.1 The level of Money Laundering (ML) risks that the Company is exposed to by a client relationship depends on:

- Type of the client and nature of business
- Type of product / service availed by the client
- Country where the Client is domiciled.

3.2 The Senior official shall classify the client into High Risk, Medium Risk and low risk category considering the following factors:-

- a) Client's location
- b) Client's address
- c) Nature of business activity
- d) Trading turnover and manner of making payments

In case a client is authorizing someone else for operating his account, the same shall be duly recorded with proper executed power of attorney on stamp paper of applicable value must be obtained and the signature as well as details of Power of Attorney should be recorded in the system.

The following classes of clients are defined as "Special Category Clients" (SCC) and the registration is done after more detailed scrutiny and after obtaining reference from a reliable source only.

- a) Non resident clients
- b) High Net-worth clients



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- c) Trust, Charities, NGOs and organizations receiving donations
- d) Unlisted companies
- e) Politically exposed persons (PEP) of foreign origin
- f) Current or former senior high profile politicians, their family members and connected entities
- g) Companies offering foreign exchange offerings
- h) Clients in high-risk countries. Viz. All Non Cooperative Countries and Territories as classified by FATF
- i) Clients with dubious reputation as per public information available

#### **4. Client acceptance policy and identification procedure:**

##### **4.1. Client Acceptance Policy (CAP)**

- a. Where the client is a new client, account must be opened only after ensuring that pre account opening KYC documentation and procedures are conducted. The Company will follow the standard in implementing the procedure for KYC.
- b. Format of the Account Opening form and transaction form may be modified appropriately to achieve this objective.
- c. Any transaction from a client may be accepted only after Client acceptance procedure is completed. However, Client acceptance procedure and Transaction acceptance procedure may be initiated simultaneously in case of low risk clients. If Client acceptance procedure rejects a client and client does not respond to requests for additional information.

##### **4.2. Know your client standards – identification of client:**

4.2.1 Identity generally means a set of attributes which together uniquely identify a natural or legal person. An individual's identity comprises his/her name recent photograph, signature, date of birth, and the residential address at which he/she can be located. In case of non-individuals, identification is established with the help of registration number, copies of incorporation documents, location, address of head office and identity of authorized signatories.

4.2.2 Identification evidence should be verified for:

- The named account holder(s)/the person in whose name an investment is registered;
- Any principal beneficial owner of funds being invested who is not the account holder or named client;



- Power of Attorney Holders.

- The failure or refusal by a client falling under high-risk category to provide satisfactory identification evidence within 30 days of seeking information and/or without adequate explanation may lead to a suspicion that client is engaged in money laundering. In such circumstances, client may be considered making a suspicious activity report.

4.3.3 A risk-based approach will be adopted towards certification of Documents. For low risk clients, reliance will be placed on a self-certified copy of the documents required to prove identity and address.

For high-risk clients, the copies of identification documents have to be attested by government gazetted officers or notarised by a public notary or by any other person who has opened an account with the Company after adhering to KYC norms stipulated under this policy.

#### 4.3.4 Client Identification Procedure

**Pre-account Opening:** The submission of all documents required under this policy is a pre-requisite for all clients' registration. Incomplete Form (including incomplete documentation) is to be rejected. The Company will follow the standard for implementing client identification procedure.

#### In- person verification

**In case of Non Resident Individual - copy of permission for dealing in securities from Authorised Dealer / RBI is mandatory. (Classified as high risk clients)**

However, proof of identity and proof address will be verified based on the following documentation:

#### Documentation requirement

##### A. Individual / Sole Proprietorship

Self attested copies of the following documents may be obtained after due verification with the originals thereof:

##### For Proof Of Identity (any one of the following)

PAN No. , Passport, Voter ID, Driving License, Photo Identity card issued by Employer registered under MAPIN

##### For Proof Of Address (any one of the following)

Passport, Voter ID, Driving License, Bank Passbook, Rent Agreement, Ration Card, Flat Maintenance Bill, Telephone Bill, Electricity Bill, Insurance Policy Certificate issued by employer Registered under MAPIN

##### For Proof Of Bank :



Copy of Cancelled Cheque leaf Pass Book, Bank Statement (containing name of constituent)

**For Proof Of Demat :**

Client master issued by DP (bearing DP stamp), Recent Holding statement (containing name of constituent)

**In case of Non Resident Individual - copy of permission for dealing in securities from Authorised Dealer / RBI is mandatory. (Classified as high risk clients)**

The above documents would be accepted in any language specified in the Eighth Schedule of the Constitution of India. Documents in any language other than a scheduled language must be translated into English, and duly attested by a notary public or gazetted officer. Signatures by way of a thumb impression are to be duly attested by a notary public or gazetted officer.

**B. HUF**

**Registration can only be held in the name of the Karta on behalf of the HUF**

**Proof of Identity :** Copy of PAN Card of the HUF

**Proof of Identification of Karta**

**Proof of address :** Bank Statement,

Declaration from the Karta in prescribed format signed by all the adult coparceners

**Financial Status**

The Client should disclose his financial status in the following manner. A provision for such disclosure will be made in the application form.

Below Rs. 1,00,000

Rs. 1,00,000 to Rs. 5,00,000

Rs. 5,00,000 to Rs. 10,00,000

Rs. 10,00,000 to Rs. 25,00,000

Above Rs. 25,00,000

**C. Occupation**

Occupation details are to be provided by the client. The details to be obtained are the following:

Employed, Self Employed, Business, Professional, House Wife, Others



#### **D. Non- Individuals (Partnership Firm, Corporate, Trust, Others)**

1. Copies of the balance sheet for the last 2 financial years (copies of annual balance sheet to be submitted every year)
2. Copy of latest share holding pattern including list of all those holding more than 5% in the share capital of the company duly certified by the company secretary / wholtime director / M.D. (copy of updated shareholding pattern to be submitted every year.)
3. Copy of the Memorandum and Article of Association in case of a company / body incorporation / partnership deed in case of a partnership firm.
4. Copy of the Resolution of board of directors' approving participation in equity / derivatives / debt trading and naming authorised persons for dealing in securities.
5. Photographs of Partners / Whole time directors, individual promoters holding 5% or more, either directly or indirectly, in the shareholding of the company and of persons authorized to deal in securities.
6. FOR PROOF OF BANK : Copy of Cancelled Cheque leaf / Pass Book / Bank Statement (containing name of constituent)
7. FOR PROOF OF DEMAT : Client master issued by DP [bearing DP stamp] / Recent Holding statement (containing name of constituent)

**In case of Non Resident Individual - copy of permission for dealing in securities from Authorised Dealer / RBI is mandatory. (Classified as high risk clients)**

#### **5. Transaction Monitoring and record keeping**

5.1. The Rules notified under the PMLA defines a "suspicious transaction" as a transaction whether or not made in cash which, to a person acting in good faith-

- a) Give 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.

5.2 All persons associated with operations, risk management and back office operations, shall take due care and report any transaction which is felt to be of suspicious nature on any ground, shall alert the Principal Officer through his immediate reporting authority.

The following illustrations would explain the basic approach.

1. Unusually large transactions / patterns which appear to have no economic purpose.
2. Off market transactions with other beneficiary account holders having no reasonable grounds.



3. Clients whose identity verification is difficult
4. Substantial increase in activity without apparent cause
5. Sudden activity in dormant account
6. Suspicious off market transactions
7. Large deals at prices away from the market
8. Large number of accounts having common parameters such as common partner/ directors/ addresses, email address, telephone number/ introducers or authorized signatories.
9. Unusual unique client code change activity with no proper justification in respect of market trades

High Value Transaction shall be identified for review by appropriately back office executive and any transaction of suspicious nature shall be immediately intimated to Principal Officer.

#### **6. MAINTENANCE AND PRESERVANCE OF RECORDS**

The Company shall preserve various records/documents/letters/correspondence received from and sent to clients.

The Company currently maintains all records and documents prescribed under the applicable laws, rules, regulations, byelaws, circulars and guidelines etc. (A copy of SEBI circular is attached as Annexure-II)

The officials shall ensure that the records are kept in an easily accessible manner so that it shall be available as and when required by the relevant authorities.

In case of any suspicious transactions being reported by Principal Officer, all correspondence and documents pertaining to the client and to the transaction be retained and maintained for a period of 10 years as prescribed by law.

The records for customer identification and KYC forms should also be maintained and retained for ten years from the date of cessation of the transactions as per section 12(2) of Prevention of Money Laundering (PML) Act 2002 as well as till the relationship with the client subsist.

The identification documents and other details should be periodically updated.

Changes required in client bank details and address details pursuant to requests received in properly filled modification form with sufficient proofs should be incorporated in records/database and the same to be retained with client identification documents. The scanned copies of KYCs of the clients are also maintained in database of the Company.



## 7. REPORTING TO FINANCIAL INTELLIGENCE UNIT (FIU)-INDIA

As per SEBI Circular no. ISD/CIR/RR/AML/2/06 dated March 20, 2006 and master circular no. ISD/AML/CIR-1/2010 dated 12<sup>th</sup> February, 2010 on Anti Money Laundering (AML) Standards/Combating Financing of Terrorism (CFT)/Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002, the Company shall furnish information with respect to cash and suspicious transactions to:

Director, Financial Intelligence Unit-India  
{FIU-IND} at the following address:

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

### 7.1 Time limits prescribed for furnishing information to Director, FIU-IND:

- Rule 8 of the Rules notified by Notification No.9/2005 (as amended by Notification No.15/2005 and 4/2007) prescribes time limit for furnishing information to the Director, FIU-IND.
- The time limit for furnishing information about cash transactions and integrally connected cash transactions to Director, FIU-IND is 15th day of the succeeding 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 should be furnished to the Director, FIU-IND not later than seven working days from the date of occurrence of such transactions.
- All suspicious transactions have to be furnished to the Director, FIU-IND not later than seven working days on being satisfied that transaction is suspicious.

### 7.2 Indicative list of suspicious activities

Further, obtain a declaration from the client confirming that the source of funds for the payment is legitimate. If no declaration is given, the transaction will be rejected.

#### Unusual Activities:

Any unusual requests like not-sending of account statements

Sudden surge in activity level, which means 6 transactions in the Fund in a day for 4 days in a span of two weeks.

Inoperative accounts for 2 years becoming active suddenly.



frequent change of bank mandates / address i.e., three or more changes in six months.

- **Certain Suspicious Funds Transfer Activities**

All clients, channel partners and distributors are requested to understand the Company's policy on KYC standards and AML measures and co-operate with the Company in implementing these policy.

### **8. Awareness**

The company shall conduct training/ awareness programme to develop awareness and vigilance of employees to guard against money laundering and terrorist financing.

### **9. Investor's Education**

The Company shall prepare specific literature so that the clients can be educated on the objectives of the Anti Money Laundering (AML)/Combating Financing of Terrorism (CFT) program.

### **10. Sub- broker training, awareness for implementation of Anti Money Laundering Policy**

10.1 The Company shall see that all its sub-brokers should adopt Anti-Money Laundering Policy and comply with the requirements.

10.2 The registered sub brokers shall submit an undertaking for complying with PMLA requirements.

The format of undertaking is attached as Annexure-III.

### **11. Review of Policy**

The company shall regularly review the policies and procedures on the prevention of money laundering and terrorist financing to ensure its effectiveness.



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