



**A BRIEF  
EXTRACT FROM POLICY ON  
ANTI MONEY LAUNDRING ON STOCK BROKING  
FOR CLIENTS AWARENESS  
As per SEBI's Master Circular on AML/CFT  
SEBI/HO/MIRSD/MIRSDSECFATF/P/CIR/2024/78  
Forming the basis of PMLA Policy of CFS**

## **Over view**

1. The Directives as outlined below provide a general background and summary of the main provisions of the applicable anti-money laundering and anti-terrorist financing legislations in India. They also provide guidance on the practical implications of the Prevention of Money Laundering Act, 2002 (**PMLA**). The Directives also set out the steps that a registered intermediary or its representatives shall implement to discourage and to identify any money laundering or terrorist financing activities.
2. These Directives are intended for use primarily by intermediaries registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (**SEBI Act**), Stock Exchanges, Depositories and other recognised entities under the SEBI Act and Regulations and rules there under. While it is recognized that a “one- size-fits-all” approach may not be appropriate for the securities industry in India, each registered intermediary shall consider the specific nature of its business, organizational structure, type of clients and transactions, etc. when implementing the suggested measures and procedures to ensure that they are effectively applied. The overriding principle is that they shall be able to satisfy themselves that the measures taken by them are adequate, appropriate and abide by the spirit of such measures and the requirements as enshrined in the PMLA.

## **1. Background**

As per the provisions of PMLA and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (Maintenance of Records Rules), as amended from time to time and notified by the Government of India, every reporting entity (which includes intermediaries registered under section 12 of the SEBI Act, i.e. a stock-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depository participant, merchant banker, portfolio manager, investment adviser and any other intermediary associated with the securities market and registered under Section 12 of the SEBI Act and stock exchanges), shall have to adhere to the client account opening procedures, maintenance records and reporting of such transactions as prescribed by the PMLA and rules notified there under.

The Maintenance of Records Rules empowers SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and form in which it is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having



regard to any guidelines issued by the regulator for detecting the transactions specified in the Maintenance of Records Rules and for furnishing information thereof, in such form as may be directed by SEBI.

**The PMLA inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as provided in Section 12A read with Section 24 of the SEBI Act will be treated as a scheduled offence under schedule B of the PMLA.**

1.1 Pursuant to the recommendations made by the financial action task force on anti-money laundering standards, SEBI vide its Circular reference no. CIR/ISD/AML/3/2010 dated 31-12-2010 has issued a Master Circular on Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT). This Master Circular supersedes the earlier circulars. As per these SEBI guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

### **Policies and Procedures to Combat Money Laundering and Terrorist Financing**

#### **Essential Principles:**

These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed Directives have outlined relevant measures and procedures to guide the registered intermediaries in preventing ML and TF. Some of these suggested measures and procedures may not be applicable in every circumstance. **Each intermediary shall consider carefully the specific nature of its business, organizational structure, type of client and transaction, etc. to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit** of the suggested measures and the requirements as laid down in the PMLA and guidelines issued by the Government of India from time to time.

In case there is a variance in Client Due Diligence (CDD)/ Anti Money Laundering (AML) standards specified by SEBI and the regulators of the host country, branches/overseas subsidiaries of registered intermediaries are required to adopt the more stringent requirements of the two.

#### **Obligation to establish policies and procedures**

1. Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, **to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing.** The PMLA is in line with these measures and mandates that all registered intermediaries ensure the fulfilment of the aforementioned obligations.

2. To be in compliance with these obligations, the senior management of a registered intermediary shall be fully committed to **establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance** with all relevant legal and regulatory requirements. The registered intermediaries shall:



- i. issue a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
- ii. ensure that the content of these Directives are understood by all staff members;
- iii. **regularly review the policies and procedures** on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, **the person doing such a review shall be different from the one who has framed such policies and procedures;**
- iv. adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;
- v. undertakes CDD measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;
- vi. have a system in place for identifying, monitoring and reporting suspected

Policies and procedures to combat ML and TF shall cover:

- i. Communication of group policies relating to prevention of ML and TF to all management and relevant staff that handle account information, securities transactions, money and client records etc. whether in branches, departments or subsidiaries;
- ii. Client acceptance policy and client due diligence measures, including requirements for proper identification;
- iii. Maintenance of records;
- iv. Compliance with relevant statutory and regulatory requirements;
- v. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and
- vi. Role of internal audit or compliance function to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff, of their responsibilities in this regard; and,
- vii. The internal audit function shall be independent, adequately resourced and commensurate with the size of the business and operations, organization structure, number of clients and other such factors.

### **Written Anti Money Laundering Procedures**



Each registered intermediary shall adopt written procedures to implement the anti-money laundering provisions as envisaged under the PMLA. Such procedures shall include inter alia, the following four specific parameters which are related to the overall 'Client Due Diligence Process':

- i. Policy for acceptance of clients;
- ii. Procedure for identifying the clients;
- iii. Risk Management;
- iv. Monitoring of Transactions.

## **1.2 Need Of Money Laundering**

- Every year, huge amounts of funds are generated from illegal activities. These funds are mostly in the form of cash.
- The Criminals who generate these funds need to bring them into the legitimate financial system.

## **2. Steps in which money is Laundered**

Money laundering basically involves three independent steps

- A) **Placement:** This refers to physical disposal of bulk cash proceeds derived from illegal activity.
- B) **Layering:** Refers to separation of illicit proceeds from their source by creating complex layers of financial transactions. Layering conceals the audit trail and provides anonymity.
- C) **Integration:** Refers to the re-injection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds. Banks and financial intermediaries are vulnerable from the Money Laundering point of view since criminal proceeds can enter banks in the form of large cash deposits.

## **3. Prevention money laundering Act, 2002**

3.1. Prevention money laundering act, 2002 (PMLA 2002) forms the core of the legal framework put in place by India to combat money laundering. PMLA 2002 and the Rules notified there under came into force with effect from July1, 2005

3.2 The PMLA 2002 and Rules notified there under impose an obligation on intermediaries (including stock broker and sub-broker) to verify identity of client, maintain records and furnish information to the financial intelligence Unit (FIU) – INDIA.



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

4.1 The Govt.of India set up Financial Intelligence Unit-India (FIU-IND) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance minister.

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



## **5. Policy of CFS Financial Services Private Limited (CFS)**

5.1. CFS Financial Services Private Limited (CFS) has resolved that it would, as an Internal Policy, take adequate measures to prevent money laundering and shall put in place a frame work to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002

## **6. Implementation of This Policy**

6.1. Mr. C S Chaudhry, Director, CFS Financial Services Private Limited will be the Principal Officer who will be responsible for

- Compliance of the provisions of the PMLA and AML Guidelines
- Policy for Acceptance of Client
- Procedure for identifying the Client.
- Ensure that CFS discharges its legal obligation for Transaction monitoring and reporting especially Suspicious Transaction Report (STR) to the concerned authorities.

6.2 The main aspect of this policy is the Customer Due Diligence (CDD) Process which Comprise the following:

- Obtaining sufficient information about the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted;
- Verify the Customer's identity using reliable, independent source document, data or information;
- Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the customer and/or the person on whose behalf a transaction is being conducted;
- Conduct on-going due diligence and scrutiny of the account/client to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile.

6.3. The Client Due Diligence Process includes three specific parameters:

- Policy for Acceptance of Clients
- Procedure for Identifying the Client
- Suspicious Transaction identification & reporting

### **Client Due Diligence**

The CDD measures comprise the following:

- (a) Obtaining sufficient information in order to identify persons who beneficially own or control the securities 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 the client's identity using reliable, independent source documents, data or information;

(c) **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;

(C.a) **For clients other than individuals or trusts:** Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, CFS shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

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

**Explanation:** Controlling ownership interest means owner-ship of/ entitlement to:

i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;

ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or

iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.

(C.bb) In cases where there exists doubt under clause (aa) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means;

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

(C.b) **For client which is a trust:** Where the client is a trust, CFS shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the author of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership;



(C.cc) Where no natural person is identified under clauses (aa) or (bb) above, the identity of the relevant natural person who holds the position of senior managing official.

(C.c) **Exemption in case of listed companies:** Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies;

(C.d) **Applicability for foreign investors:** CFS's dealing with foreign investors' may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19,2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;

(C.e) The Stock Exchanges and Depositories shall monitor the compliance of the aforementioned provision on identification of beneficial ownership through half yearly internal audits. In case of mutual funds, compliance of the same shall be monitored by the Boards of the Asset Management Companies and the Trustees and in case of other registered intermediaries, by their Board of Directors.

(d) 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 relation to (c) ;

(e) Understand the ownership and control structure of the Client;

(f) 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 CFS's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds;

(g) Registered intermediaries shall review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be, when there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained client identification data; and

(h) Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.



## **6.4. Policy for acceptance of clients (Customer Acceptance Policy)**

6.4.1 CFS Financial Services Private Limited had developed customer acceptance policy and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of Money Laundering or Terrorist Financing. By establishing such policies and procedures, we will be in a better position to apply customer due diligence on a risk sensitive basis depending on the type of customer business relationship or transaction. In a nutshell, the following safeguards are followed while accepting the clients:

- i. We do not allow the opening of or keep any anonymous account or account in fictitious names or account on behalf of other persons whose identity have not been disclosed or cannot be verified;
- ii. Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher; Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile;
- iii. The CFS shall undertake enhanced due diligence measures as applicable for Clients of Special Category (CSC). CSC shall include the following:
  - a) Non - resident clients;
  - b) High net-worth clients;
  - c) Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations;
  - d) Companies having close family shareholdings or beneficial ownership;
  - e) **Politically Exposed Persons (PEP)**. 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. The additional norms applicable to PEP as contained in the subsequent paragraph 14 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs;



f) **Clients in high-risk countries.** While dealing with clients from or situate in high risk countries or geographic areas or when providing delivery of services to clients through high risk countries or geographic areas i.e. places where existence or effectiveness of action against money laundering or terror financing is suspect or countries which are declared unfriendly by the Indian Government from the point of view of security of the country, CFS apart from being guided by the FATF statements that inter alia identify such countries or geographic areas that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website ([www.fatf-gafi.org](http://www.fatf-gafi.org)) from time to time, shall also independently access and consider other publicly available information along with any other information which we may have access to. However, CFS shall not enter into legitimate transactions with clients from or situated in such high risk countries and geographic areas or delivery of services through such high risk countries or geographic areas without taking approval of the management of the Exchange and the Regulators;

g) **Non face to face clients.** Non face to face clients means clients who open accounts without visiting the branch/offices of the CFS or meeting the officials of the CFS. CFS does not open any clients accounts where in person verification is not possible.

h) Clients with dubious reputation as per public information available etc;

The above-mentioned list is only illustrative and CFS shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

iv. Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.

v. CFS shall ensure that an account is not opened where CFS is unable to apply appropriate CDD measures. This shall apply in cases where it is not possible to ascertain the identity of the client, or the information provided to CFS is suspected to be non - genuine, or there is perceived non - co-operation of the client in providing full and complete information. CFS shall not continue to do business with such a person and file a suspicious activity report. CFS shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The persons evaluating the account shall be cautious to ensure that they do not return securities or money that may be from suspicious trades. CFS shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.

vi. The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent- client registered with CFS, as well as the person on whose behalf the agent is acting shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.



vii. Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.

viii. The CDD process shall necessarily be revisited when there are suspicions of ML/TF.

- **Accept Clients on whom we are able to apply appropriate KYC procedures:** Obtain complete information from the client. It should be ensured that the initial forms taken by the clients are filled in completely. All photocopies submitted by the Clients are checked against original documents without any exception. Ensure that the ‘KNOW YOUR CUSTOMER GUIDELINES’ are followed without any exception. All Supporting documents as specified by Securities and Exchange Board of India (SEBI) and Exchanges are obtained and verified. Ensure linking of PAN and AADHAAR for all resident investors is done and verified at the time of KYC.

## 6.6. Customer identification procedure

Our KYC policy clearly spells out the Client Identification procedure to be carried out at different stages i.e. while establishing CFS – Client relationship, while carrying out transactions for the client or when CFS has doubts regarding the veracity or the adequacy of previously obtained client identification data.

The following requirements are put in place for a Client Identification Procedure (CIP):

- We have proactively put in place appropriate risk management systems to determine whether our client or potential client or the beneficial owner of such client is a politically exposed person. The procedures include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures as outlined in this also is applicable where the beneficial owner of a client is a PEP.
- We have put systems in place to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, our officials obtain senior management approval to continue the business relationship.
- Systems are put in place to take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.



- We obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
- If any prospective client fails to provide satisfactory evidence of identity, then the same is to be reported to the higher authority.
- The information must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by CFS in compliance with the directives. Each original document shall be seen prior to acceptance of a copy.

Objective: to have a mechanism in place to establish identity of the client along with firm proof of address to prevent opening of any account which is fictitious / benami / anonymous in nature.

SEBI has specified the minimum requirements relating to KYC for certain classes of clients from time to time. Taking into account the basic principles enshrined in the KYC norms which have already been specified or which may be specified by SEBI from time to time, CFS shall frame their own internal directives based on their experience in dealing with their clients and legal requirements as per the established practices.

We conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective is to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued there under so that we are aware of the clients on whose behalf it is dealing.

We formulate and implement a CIP which incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients

CFS carries out due diligence of all clients, irrespective of the amount of investment made by clients. No minimum threshold or exemption is available to CFS from obtaining the minimum information/documents from clients as stipulated in the PML Rules/ SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of the client. Further no exemption from carrying out CDD exists in respect of any category of clients.



## **Risk Management**

### **Risk-based Approach**

(a) CFS shall apply a Risk Based Approach (RBA) for mitigation and management of the identified risk and should have policies approved by their senior management, controls and procedures in this regard. Further, the CFS shall monitor the implementation of the controls and enhance them if necessary.

(b) It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, the CFS shall apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the CFS shall adopt an enhanced client due diligence process for higher risk categories of clients. Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information and documents that CFS shall obtain necessarily depend on the risk category of a particular client.

(c) Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

### **Risk Assessment**

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

## **Monitoring of Transactions**

- a) Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. This is possible only if CFS has an understanding of the normal activity of the client so that it can identify the nature of activity or any deviations in transactions / activities away from normal activity pattern of the client. From time to time, order/trade Limits are prescribed in various Segments to enable strong monitoring of transactions. Presently, the order limits prescribed for transactions are as follows:  
CM SEGMENT: Max Order Qty 25000 nos and Max Order Value Rs 40 Lakhs; and  
FO SEGMENT: MAX Order Qty 100000 nos and Max Order Value Rs 250 Lakhs



- b) CFS pays special attention to all complex unusually large transactions / patterns which appear to have no economic purpose. The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof is also examined carefully and findings are recorded in writing. Further such findings, records and related documents are maintained meticulously and made available to auditors and also to SEBI/stock exchanges/FIU-IND/ other relevant Authorities, during audit, inspection or as and when required.
- c) CFS shall apply client due diligence measures also to existing clients on the basis of materiality and risk, and conduct due diligence on such existing relationships appropriately. The extent of monitoring shall be aligned with the risk category of the client.
- d) CFS shall ensure a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities within CFS.
- e) Further, the compliance cell of CFS shall randomly examine a selection of transactions undertaken by clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

#### **6.6.1. Documents which can be relied upon:**

**PAN CARD:** PAN card is mandatory and is most reliable document as only one card is issued to an individual and we can independently check its genuineness through IT website.

**IDENTITY PROOF:** PAN Card itself can serve as proof of identity. However, in case PAN card carries an old photograph of the holder, which does not match current facial features of the client, we should take other identity proof in form of Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card.

**ADDRESS PROOF:** For valid address proof we can rely on Voter's Identity Card, Aadhar, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client.

#### **6.6.2. Documents to be obtained as part of customer identification procedure for new clients:**

- a. In case of individuals, one copy of the following documents has to be obtained:
  - As PAN is mandatory, verify its genuineness with IT website and cross verify the PAN card copy with the original. [Please put \_verified with original\_ stamp as proof of verification]



- Other proofs for identity are Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card or any other document prescribed by the regulatory authorities.
- Address proof in the form of Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client or any other document prescribed by the regulatory authorities.

b. In case of corporates, one certified copy of the following documents must be obtained:

- Copy of the Registration/Incorporation Certificate
- Copy of the Memorandum & Articles of the Association
- Copy of the PAN card for the Company and the Directors
- Copy of the last three audited Annual Statements of the corporate client
- Latest Net worth Certificate
- Latest Income Tax return filed.
- Board Resolution for appointment of the Authorized Person who will operate the account.
- Proof of address and identity of Authorized Person
- Details of Share Holding Pattern
- Copy of Form No. 32 (ROC) giving particulars of Board Of Directors.

c. In case of partnership firm one certified copy of the following must be obtained:

- Registration certificate
- Partnership Deed
- PAN card of partners
- POA granted to a partner or an employee of the firm to transact business on its behalf
- Proof of identity and address of the authorized person.
- Telephone bill in the name of firm / partner
- Annual statement/returns of the partnership firm

d. In case of a Trust, one certified copy of the following must be obtained:

- Registration certificate
- Trust Deed
- PAN card
- Authority Letter /Power of Attorney granted to transact business on their behalf
- Any Officially valid documents to identify the Trustees, Settlers, beneficiaries and those holding POA, Founders / Mangers / Directors and their addresses
- Resolution of the managing body of the foundation / association
- Telephone Bill



e. In case of an NRI account- Repatriable /non-repatriable, the following documents are required:

- Copy of the PIS permission issued by the bank
- Copy of the passport
- Copy of PAN card
- Proof of overseas address and Indian address
- Copy of the bank statement
- Copy of the demat statement
- If the account is handled through a mandate holder, copy of the valid PoA/mandate

## **7. Risk Profiling of the Client**

7.1. We accept the clients based on the risk they are likely to pose. The aim is to identify clients who are likely to pose a higher-than-average risk of money laundering or terrorist financing. For this purpose, we classify the clients as Low risk, medium risk and high-risk clients. By classifying the clients, we will be in a better position to apply appropriate customer due diligence process. That is, for high-risk client we have to apply higher degree of due diligence. The factors of risk perception depend on client's location, nature of business activity, turnover, nature of transaction, manner of payment etc.

7.2. In order to achieve this objective, all clients of the branch are classified in the following category:

Category A - Low Risk

Category B - Medium Risk

Category C - High risk

7.2.1. **Category A** – Clients are those pose low or nil risk. They are good Corporates / HNIs who have a respectable social and financial standing. These are the clients who make payment on time and take delivery of shares belonging to blue chip companies or high growth stocks and have sound knowledge and study of the markets. They are also those clients who have been trading with us for 5 years or more and whose payment and delivery is always on time. Clients dealing in Futures & Options segment and who believe in maintaining extra credit balances or 100% cash as margin money are dealt in this category.

7.2.2. **Category B** - Clients are those who are intraday clients or speculative clients. Clients who tend to deal more in Futures and Options segment only though they may be accurate in payment of margins are classified in this category. These are the clients who maintain running account with CFS. Clients who tend to rotate delivery based mid-cap or small-cap stocks are also in this category as these stocks are volatile in nature.

7.2.3. **Category C** - Clients are those who have in the past delayed payments, have suspicious background, do not have strong financial status in form of Income Tax Returns and strong securities portfolio, etc. Clients who trade intra-day and deal at more than one brokerage house and have many Bank Accounts to our knowledge. Such clients may also have cheque bouncing



history. Clients of Special Category as given in Para 6.5 above are also sometimes classified in this Category.

7.3. CFS requires their team to be careful while monitoring the transactions of B category clients and extremely careful in case of C category clients.

7.4. Apart from this we exercise extra caution while monitoring the transactions of NRI/NRE/PIO and foreign clients, especially when the payment is being made in foreign currency.

7.5. Any change in the risk profile of the client / mandate holder, has to be ascertained by the concerned branch officials, and reported to the Business Head immediately.

## **8. Suspicious Transactions**

All are requested to analyze and furnish details of suspicious transactions, whether or not made in cash. It should be ensured that there is no undue delay in analysis and arriving at a conclusion.

- 1) CFS shall ensure that appropriate steps are taken to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious transactions. While determining suspicious transactions, we shall be guided by the definition of a suspicious transaction contained in PML Rules as amended from time to time.
- 2) CFS shall observe the list of circumstances which may be in the nature of suspicious transactions and given as an illustrative list in SEBI Circulars and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:
  - i Clients whose identity verification seems difficult or clients that appear not to cooperate;
  - ii Asset management services for clients where the source of the funds is not clear or not in keeping with clients' apparent standing /business activity;
  - iii Clients based in high-risk jurisdictions;
  - iv Substantial increases in business without apparent cause;
  - v Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;



- vi Attempted transfer of investment proceeds to apparently unrelated third parties;
  - vii Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services.
- 3) Any suspicious transaction is immediately notified to the **Designated/ Principal Officer** of CFS. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it is ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall 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 concerned in the transaction, or other action taken. The Designated/ Principal Officer and other appropriate compliance, risk management and related staff members are timely access to client identification data and CDD information, transaction records and other relevant information.
- 4) It is likely that in some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents. CFS shall report all such attempted transactions in STRs, if not completed by clients, irrespective of the amount of the transaction.
- 5) Paragraph 12 (iii) (f) of SEBI Circular categorizes clients of high-risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. CFS directs that such clients shall be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhance relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc. As far as possible, CFS shall endeavor to not entertain clients from such jurisdictions.

## **Record Management**

### **Information to be maintained**

CFS shall maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:

- i. the nature of the transactions;
- ii. the amount of the transaction and the currency in which it is denominated;
- iii. the date on which the transaction was conducted; and
- iv. the parties to the transaction.



### **Record Keeping**

- a) CFS ensures compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there under, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Byelaws and Circulars.
- b) CFS shall maintain such records as sufficient 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.
- c) In case of any suspected laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, CFS shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:
  - i. the beneficial owner of the account;
  - ii. the volume of the funds flowing through the account; and
  - iii. for selected transactions:
    - a. the origin of the funds
    - b. the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
    - c. the identity of the person undertaking the transaction;
    - d. the destination of the funds;
    - e. the form of instruction and authority.
- d) CFS shall ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, the relevant records are retained, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed thereunder PMLA, other relevant Legislations, Rules and Regulations or Exchange byelaws or circulars.
- e) CFS has put in place a system of maintaining proper record of the nature and value of transactions which has been prescribed under Rule 3 of PML Rules as mentioned below:
  - i. all cash transactions of the value of more than ten lakh rupees or its equivalent in foreign currency;
  - ii. all series of cash transactions integrally connected to each other which have been individually valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the monthly aggregate exceeds an amount of ten lakh rupees or its equivalent in foreign currency. It may, however, be clarified that for the purpose of suspicious transactions reporting, apart



from 'transactions integrally connected', 'transactions remotely connected or related' shall also be considered.

iii. 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;

iv. 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 us.

## **Retention of Records**

- a) CFS shall take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules are maintained and preserved for a period of five years from the date of transactions between the client and the Company.
- b) CFS has formulated and implemented the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. Records evidencing the identity of our clients and beneficial owners as well as account files and business correspondence are maintained and preserved for a period of five years after the business relationship between client and us has ended or the account has been closed, whichever is later.
- c) In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, we retained until it is confirmed that the case has been closed.
- d) We maintain and preserve the records of information related to transactions, whether attempted or executed, which are reported to the Director, FIU – IND, as required under Rules 7 and 8 of the PML Rules, for a period of five years from the date of the transaction between the client and us.

## **Procedure for freezing of funds, financial assets or economic resources or related services**

We and the Stock Exchanges ensure that in terms of Section 51A of the Unlawful Activities (Prevention) Act, 1967 (UAPA) and amendments thereto, we do not have any accounts in the name of individuals/ entities appearing in the lists of individuals and entities, suspected of having terrorist links, which are approved by and periodically circulated by the United Nations Security Council (UNSC).



In order to ensure expeditious and effective implementation of the provisions of Section 51A of UAPA, Government of India has outlined a procedure through an order dated February 02, 2021 (Annexure 1) for strict compliance. These guidelines have been further amended vide a Gazette Notification dated June 08, 2021 (Annexure 2).

The Suspicious Transaction Report (STR) are submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer records his reasons for treating any transaction or a series of transactions as suspicious. It is ensured that there is no undue delay in arriving at such a conclusion.

### 8.1 Reasons for Suspicious:

#### **Identity of client**

- False identification documents
- Identification documents which could not be verified within reasonable time
- Non face to face client
- Clients in high-risk jurisdiction
- Doubt over the real beneficiary of the account
- Accounts opened with names very close to other established business entities

#### **Suspicious Background**

- Suspicious background or links with criminals

#### **Multiple Accounts**

- Large number of accounts having a common parameters such as common partners / directors / promoters / address/ email address / telephone numbers introducer or authorized signatory
- Unexplained transfers between such multiple accounts.

#### **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

#### **Nature of Transactions**

- Unusual or unjustified complexity
- No economic rationale or bonafied purpose



- Source of funds is doubtful
- Purchases made on own account transferred to a third party through an off market transactions through DP account
- Transactions reflect likely market manipulations
- Suspicious off market transactions

### **Value of Transactions**

- 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 clients apparent financial standing
- Inconsistent in the payment pattern by client

### **8.2. What to Report**

- The nature of the transactions
- The amount of the transaction and the currency in which it was denominated
- The date on which the transaction was conducted: and
- The parties to the transaction
- The reason of suspicion.

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

The Ministry of Home Affairs, in pursuance of Section 35(1) of UAPA 1967, declares the list of individuals/entities, from time to time, who are designated as 'Terrorists'. CFS shall take note of such lists of designated individuals/terrorists, as and when communicated by SEBI.

All orders under section 35 (1) and 51A of UAPA relating to funds, financial assets or economic resources or related services, circulated by SEBI from time to time shall be taken note of for compliance.

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://press.un.org/en/content/press-release>. The details of the lists are as under:

- i. The "ISIL (Da'esh) & Al-Qaida Sanctions List", which includes names of individuals and entities associated with the Al-Qaida. The updated ISIL & Al-Qaida Sanctions List is available at: <https://www.un.org/securitycouncil/sanctions/1267/press-releases>.
- ii. The list issued by United Security Council Resolutions 1718 of designated Individuals and Entities linked to Democratic People's Republic of Korea [www.un.org/securitycouncil/sanctions/1718/press-releases](http://www.un.org/securitycouncil/sanctions/1718/press-releases).



CFS has to ensure that accounts are not opened in the name of anyone whose name appears in said list. CFS shall 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.

The Stock Exchanges and the CFS shall maintain updated designated lists in electronic form and run a check on the given parameters 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 them.

The Stock exchanges and the CFS shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions carried through or attempted in the accounts covered under the list of designated individuals/entities under Section 35 (1) and 51A of UAPA.

Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to the Central [designated] Nodal Officer for the UAPA, at Fax No.011-23092551 and also conveyed over telephone No. 011-23092548. The particulars apart from being sent by post shall necessarily be conveyed on email id: jsctcr-mha@gov.in.

The Stock exchanges and the CFS shall also send a copy of the communication mentioned above to the UAPA Nodal Officer of the State/UT where the account is held and to SEBI and FIU-IND, without delay. The communication shall be sent to SEBI through post and through email (sebi\_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Deputy General Manager, Division of FATF, Market Intermediaries Regulation and Supervision Department, Securities and Exchange Board of India, SEBI Bhavan II, Plot No. C7, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051. The consolidated list of UAPA Nodal Officers is available at the website of Government of India, Ministry of Home Affairs.

### **Jurisdictions that do not or insufficiently apply the FATF Recommendations**

FATF Secretariat after conclusion of each of its plenary, releases public statements and places jurisdictions under increased monitoring to address strategic deficiencies in their regimes to counter money laundering, terrorist financing, and proliferation financing risks. In this regard, FATF Statements circulated by SEBI from time to time, and publicly available information, for identifying countries, which do not or insufficiently apply the FATF Recommendations, shall be considered by the CFS.

The CFS shall take into account the risks arising from the deficiencies in AML/CFT regime of the jurisdictions included in the FATF Statements. However, it shall be noted that the regulated entities are not precluded from having legitimate trade and business transactions with the countries and jurisdictions mentioned in the FATF statements.



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

In terms of the PML Rules, CFS are 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

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

Connaught Place, New Delhi-110001, INDIA

Telephone: 91-11-23314429, 23314459

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

**(For FINnet and general queries)**

ctrcell@fiuindia.gov.in

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

complaints@fiuindia.gov.in

Website: <http://fiuindia.gov.in>

CFS shall carefully go through all the reporting requirements and formats that are available on the website of FIU – IND under the Section Obligation of Reporting Entity –Furnishing Information -Reporting Format ([https://fiuindia.gov.in/files/downloads/Filing\\_Information.html](https://fiuindia.gov.in/files/downloads/Filing_Information.html)). These documents contain detailed directives on the compilation and manner/procedure of submission of the reports to FIU-IND.

The related hardware and technical requirement for preparing reports, the related data files and data structures thereof are also detailed in these documents. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, CFS shall adhere to the following:

- i. The Cash Transaction Report (CTR) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month.
- ii. The Suspicious Transaction Report (STR) shall be submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion.
- iii. The Non Profit Organization Transaction Reports (NTRs) for each shall be submitted to FIU-IND by 15th of the succeeding month.
- iv. The Principal Officer will be responsible for timely submission of CTR, STR and NTR to FIU-IND;



- v. Utmost confidentiality shall be maintained in filing of CTR, STR and NTR to FIU-IND.
- vi. No nil reporting needs to be made to FIU-IND in case there are no cash/ suspicious/non-profit organization transactions to be reported.

CFS shall not put any restrictions on operations in the accounts where an STR has been made. CFS and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing (“tipping off”) the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/ or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level.

It is clarified that the CFS, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

It is further clarified that "proceeds of crime" include property not only derived or obtained from the scheduled offence but also any property which may directly or indirectly be derived or obtained as a result of any criminal activity relatable to the scheduled offence.

#### **Designation of officers for ensuring compliance with provisions of PMLA**

**Appointment of a Principal Officer:** To ensure that the CFS properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. Names, designation and addresses (including email addresses) of ‘Principal Officer’ including any changes therein shall also be intimated to the Office of the Director-FIU-IND. As a matter of principle, it is advisable that the ‘Principal Officer’ is of a sufficiently senior position and is able to discharge the functions with independence and authority.

**Appointment of a Designated Director:** In addition to the existing requirement of designation of a Principal Officer, the CFS shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:

“Designated director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes

- a) the Managing Director or a Whole-Time Director duly authorized by the Board of Directors if the reporting entity is a company,
- b) the managing partner if the reporting entity is a partnership firm,



- c) the proprietor if the reporting entity is a proprietorship firm,
- d) the managing trustee if the reporting entity is a trust,
- e) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and
- f) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above”.

In terms of Section 13 (2) of the PMLA, the Director, FIU – IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of CFS to comply with any of its AML/CFT obligations.

CFS shall communicate the details of the Designated Director, such as, name designation and address to the Office of the Director, FIU – IND.

## **9. Employee’s Hiring / Employee’s Training / Investor Education**

### **9.1 Hiring of Employee**

Adequate screening procedures are in place to ensure high standards when hiring employees. They shall identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties

### **9.2 Employees’ Training**

We conduct employee training programme so that our members of the staff are adequately trained in AML and CFT procedures. Training requirements are specifically focused on Frontline Staff, Back Office staff, Compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

### **9.3 Investor Education**

Periodically we need to collect documents of personal nature as these documents are evidence of source of funds / income tax returns / bank records etc. At the time of collection of these documents, we inform our clients about AML and CFT framework as there is a need for CFS to sensitize their clients about these requirements.



## **10. Designated / Principal Officer**

In case any further information / clarification is required in this regard, the Principal Officer may be contacted:

**Mr C. S. Chaudhry, Director,  
CFS Financial Services Private Limited  
F-12, Green Park Main,  
New Delhi – 110016.  
Tel: 011 – 40502717–41637972  
Email: [csc@cfstradecity.in](mailto:csc@cfstradecity.in)**