

ISE Securities & Services Ltd.

(Revised on 24 March 2014)

Policy Guidelines on 'Know Your Customer' norms and Anti-Money Laundering measures



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1. Preamble

In terms of the guidelines issued by the Securities Exchange Board of India (SEBI) for both trading and demat accounts on Know Your Customer(KYC) standards and Anti Money Laundering(AML) measures, intermediaries (both brokers and depository participants) are required to put in place a comprehensive policy frame work covering KYC Standards and AML Measures.

This policy document is prepared in line with the SEBI guidelines and in line with ISE Securities & Services Ltd. approach to customer identification procedures, customer profiling based on the risk perception and monitoring of transactions on an ongoing basis. The objective of this policy document is to prevent ISE Securities & Services Ltd. from being used, intentionally or unintentionally, by criminal elements for money laundering activities and for identifying, monitoring and reporting suspected money laundering or terrorist financing transactions to the law enforcement authorities.

2. Definition of Money Laundering

Section 3 of the Prevention of Money Laundering [PML] Act 2002 has defined the “offence of money laundering” as under:

“Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering”.

Money launders may use the broking system for cleansing ‘money’ earned through criminal activities with the objective of hiding/disguising its source. The process of money laundering involves creating a web of financial / trading transactions so as to hide the origin and true nature of these funds. Money launders also disguise the true source of funds by investing the funds earned out of terrorist / criminal activities through third party accounts.

3. Obligations under Prevention of Money Laundering [PML] act 2002

Section 12 of PML Act 2002 places certain obligations on every banking company, financial institution and intermediary which include (i) maintaining a record of prescribed transactions preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the intermediary. (ii) Furnishing information of prescribed transactions to the specified authority.



transactions with the clients. These requirements would come into effect after Govt. of India frames rules under the Act.

4. Policy Objectives

1. To prevent criminal elements from using the ISE Securities & Services Ltd. Trading / demat system for money laundering activities.
2. To enable ISE Securities & Services Ltd. to know / understand its customers and their financial dealings better, which in turn would help ISE Securities & Services Ltd. to manage risks prudently.
3. To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures.
4. To comply with applicable laws and regulatory guidelines related to anti – money laundering.
5. To take necessary steps to ensure that the concerned staff are adequately trained in KYC/AML procedures.

5. Scope

This policy is applicable to all branches/offices of ISE Securities & Services Ltd. and is to be read in conjunction with related operational guidelines issued from time to time.

6. Client Acceptance Procedures

Considering the potential threat of usage of the financial services by a money launderer, it is essential to make reasonable efforts to determine the true identity of clients. ISS has to put in place effective procedures to obtain requisite details for proper identification of new customers.

1. ALL KYC Documentations and Procedures shall be followed at the time of account opening and no account shall be opened where ISS is unable to apply appropriate CDD (Client Due Diligence) measures/KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the intermediary is suspected to be non genuine or there is perceived non cooperation of the client in providing full and complete information.
2. The submission of all documents required under this policy shall be pre-requisite for account opening for all clients. Incomplete application including incomplete documentation will be rejected. ISS will follow the industry standard for implementing client identification procedure.
3. The authorized official of ISS or Sub-broker shall personally verify the Photograph of the client affixed on the Account Opening Form [AOF) and the proof of identity documents with the person concerned. The authorized official who has done in person verification and verified the documents with original should also sign on the proof. Each original document shall be seen prior

to acceptance of copy. Stamp of “documents verified with originals” must be affixed along with the signature of the authorized person.

4. In case of any discrepancy or non-provision of information by the client, ISS shall seek necessary clarification from the applicant and activate the account only when the discrepancy is resolved or the deficiency is fulfilled. For e.g. Cases where names mentioned on the AOF (Account Opening Form) and that on the PAN Card, address proof or other documents submitted by the applicant do not match etc.

5. Verify the customer’s identity using reliable, independent source documents, data or information by following procedure:

(A) The PAN Card details should be verified with the name(s) appearing on the website of the Income Tax Department, <http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp?pAction=Post>. In case the name(s) do not match or the PAN Card details are not present in the PAN Card database, ISS should seek necessary clarification from the applicant(s) and activate the account only when the discrepancy is resolved.

(B) ISS to refer the list of the person who have been debarred by SEBI, NSE & BSE on regular basis and ensure that no client’s application is accepted if the name of such client falls in the list of debarred person maintained by ISS.

(C) Precaution shall be taken as far as possible 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 provided appropriate information is available to identify a person based on PAN number/address/any other appropriate information is available to ISS from websites generally known for such purpose/information provided by SEBI/BSE/NSE.

(D) As per guidelines issued by SEBI/BSE/NSE, ISS shall put in place necessary procedures to determine whether their existing/potential client is a politically exposed person (PEP) of foreign origin. Such procedures would include seeking additional information from clients, accessing publicly available information etc. as per guidance provided by SEBI/BSE/NSE.

6. Precaution to be taken that no account is opened in a fictitious / benami name or on an anonymous basis.

7. ISS shall categorize its clients into low, medium and high risk as per the Client categorization procedure adopted by ISS from time to time. Clients shall be categorized at the time of account opening with ISS based on recommendation made by the Branch Manager/ Relationship Manager/ Sub-broker/ Authorized Person who introduces the client, information provided by the Client in KYC, information available in public domain, etc. Clients of special category as stated in the SEBI circular will be closely monitored unless the

client is found to be of low/ medium risk depending upon information about the client collected through KYC, etc.

8. The applicant shall be required to disclose his / her financial status & occupation details as required by PMLA. In case of Non Individual clients like, corporate, Trust, Partnership firms, etc. last 2 years balance sheet may be obtained.

6.1 Client Identification Process

The following precautions will have to be taken by ISS in order to ascertain that accounts are not misused by the clients or by any third parties for money laundering activities:

1. ISS will obtain sufficient information about the client and identify actual beneficiary of transactions or on whose behalf transactions are conducted.
2. Verify client's identity
3. ISS will register clients as per SEBI/BSE/NSE guidelines and it will develop appropriate reporting system to monitor client's trades.
4. ISS shall periodically update all documents, data or information of all clients and beneficial owners collected under CDD (Client Due Diligence) process provided the client provides the information.
5. ISS shall ensure that maker -checker facility is in place for all its operation as a risk management measure as well as to increase efficiency. In case of mismatch of signature/s on PAN and the AOF, ISS shall ask for an alternate proof of identity bearing client's signature as put on AOF or bank verification of the signature.
6. In case a new client is Politically Exposed Person (PEP) or a new client is a relative of PEP then such client activation must be done only after getting prior approval of CEO. CEO approval will also be taken when an existing client become PEP at later stage.

6.1(A) SEBI vide its circular CIR/MIRD/2/2013 dated January 24, 2013 has issued guidelines on identification of beneficial ownership. SEBI master circular no. CIR/ISD/AML/3/2010 dated 31 December 2010 has mended all registered intermediaries to obtained, as a part of their client due diligence policy sufficient information from their clients in order to identify and verify the identity of the persons whom beneficially own or control the securities account. The beneficial owner has been defined in the circular as the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted, and includes a person who exercises ultimate effective control over a legal person or arrangement.

Pursuant to the above provisions contained in SEBI circular dated Jan 24, 2013, ISS shall at the time of registering the client other than an individual or trust i.e. company partnership or unregistered associates, body individual shall identify the beneficial owners of the clients and reasonable measures to verify the identity of such person through the following information.

a. 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 ownership 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.

b. In cases where there exists doubt under clause (a) 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. Where no natural person is identified under clauses (a) or (b) above, the identity of the relevant natural person who holds the position of senior managing official.

In case the client is a trust the ISS shall identify the beneficial owner of the client and take reasonable measures to verify the identity of the settlers of the trust, trustee the protector of the beneficiaries with 15 % or more interest in the trust and any other person exercising ultimate control over the trust through a chain of control or ownership.

As per the provision contained above SEBI circular the exemption is granted in case the client or the owner of the controlling interest is a company listed in the stock exchange.

In case of foreign investor i.e. FII subaccount and qualified foreign investor ISS should be guided by the clarification issued by SEBI by circular CIR/MIRSD/11/2012 dated 5 Sep 2012 for the purpose of identification of beneficiary ownership of the client.

6.2 Categorization of Client

ISS shall accept the clients based on the risk they are likely to pose. For this purpose, ISS shall categorize the clients under low risk, medium risk and high risk category based on appropriate Customer Due Diligence process.

Low Risk:

Low risk clients are those who are likely pose low or nil risk as per the PMLA policy. Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. They can be following:

1. Salaried Individuals.
2. Corporate which are providing financial details of last two years and identity of the beneficial owner is disclosed.
3. Government employees and government owned companies.
4. HNI's who have respectable social and financial payments.
5. Businessman whose identity and source of wealth is easily identified and who is complying with maximum KYC disclosures.
6. Clients who does not fall in the above mentioned points and who provide maximum information as per KYC and exhibits transparency
7. Clients which have been introduced by brokers/branch managers and they have known them personally and have faith in their genuineness.

Medium Risk:

Customers that are likely to pose medium risk to ISS may be categorized as medium risk such as:

1. Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
2. Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
3. Clients delegating authority of operation of their trading & beneficial accounts to any of their immediate family members.

High Risk

1. Entities into foreign exchange business.
2. High net worth individuals whose identity and source of wealth is difficult to identify.
3. Trusts, charities, NGOs and organizations receiving donations,
5. Politically Exposed Persons (PEPs)
6. Those with dubious reputation as per public information available, etc.
7. Clients in high risk countries as announced by appropriate authority from time to time.

Pursuant to provisions contained in SEBI circular no. CIR/MIRSD/1/2014 dated March 12, 2014 ISS shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk

with respect to our clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. 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 (these can be accessed at

http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml and <http://www.un.org/sc/committees/1988/list.shtml>).

The risk assessment carried out, ISS 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.

Reliance on third party for carrying out Client Due Diligence (CDD)

i. ISS may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.

Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/guidelines issued by SEBI from time to time. Further, it is clarified that sub brokers of ISS, along with ISS shall be ultimately responsible for CDD and Undertaking enhanced due diligence measures, as applicable.

7. Transaction monitoring

A suitable software is to be developed for transaction monitoring .Software should include following features :-

Key features of software:

- ✓ Consolidated Platform for Equity, Derivatives and Depository Segment.
- ✓ Watch list / Screening from multiple sources - SEBI, UN Security Council (Al Qaeda and Taliban)

- ✓ Ongoing checking for updated SEBI Debarred Entities with existing clients at a click of a button.
- ✓ Download Manager will ensure that all public and trade level information is directly imported to the system.
- ✓ Ranking of Clients based on smart detection of potentially fraudulent transactions and trading patterns
- ✓ Big Picture summary provides quick view of most suspicious Clients
- ✓ Advanced scenarios based on the transactional data
- ✓ Improve accuracy of alerts and focus on high-risk clients and events, rather than chasing all simple alerts based on one single criterion
- ✓ Comprehensive reports with details about suspicious transactions of Clients
- ✓ Reports based on Client's trades, Order Logs, Income, volume in Exchange, Illiquid scrip

etc

- ✓ Risk Categorization of Clients allows you to highlight high risk Clients
- ✓ Track Clients classified in Special Categories like NRI, Trust, Charity, Politically Exposed, Non face-to-face clients, clients with dubious public reputation etc
- ✓ Customizable points system that allows you to define your own weightings for different reports.
- ✓ Suspicious transaction register allows you to save and track suspicious transactions as required by regulations of the exchange and SEBI, by maintaining comment log and status (Closed after investigation / Reported to Exchange) for each suspicious transaction
- ✓ Watch list comparison with Client database to find suspicious Clients
- ✓ CDSL / NSDL suspicious transaction reports
- ✓ STR Module which will create the files as desired by the FIU IND.

Transaction monitoring procedure:

Regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money

Laundrying procedures. The following activities / transactions to be monitored on an ongoing basis to enable ISE Securities & Services Ltd to submit periodical CTRs / STRs:

1. Special attention should be paid to all complex, unusually large transactions / patterns which appear to have no economic purpose. Internal threshold limits to be specified for each class of client accounts and pay special attention to the transaction which exceeds these limits.
2. Randomly examine a selection of transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.
3. Clients whose identity verification seems difficult or clients appears not to cooperate.
4. Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity.
5. Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions.
6. Substantial increases in business without apparent cause;
7. Unusual transactions by CSCs and businesses undertaken by shell corporations, offshore banks /financial services, businesses reported to be in the nature of export-import of small items.
8. Comparison of declared income with trading volumes.
9. Verification of amounts paid through third party cheques.
10. Verification of amounts paid through demand drafts.
11. Off – market transfers in dormant accounts.
12. Huge transactions in short period and then account becoming dormant or closed.
13. Transactions in illiquid scrips.
14. Matching of orders in illiquid scrips.
15. Multiple client code transactions.
16. Trading involving a quantity of more than 10,000 shares per day would be taken up for further scrutiny and where necessary, for detailed investigation by the Registered Intermediaries.
17. In the case of penny stocks (small cap companies or a scrip having a market price of less than Rs.10/- per share), trading for quantities above 2500 shares would be taken up for further scrutiny by the Registered Intermediaries.

18. Details of debit or credit transactions in any account collectively during the fortnight in an account, exceeding 10 times the average size of the transaction in ISS subject to a minimum of 5000 shares would be flagged for further investigation.
19. The top 15 debit transactions from an account having the maximum cumulative debit value for the day and the top 15 credit transactions into an account having maximum cumulative credits for the day would be flagged and taken up for further investigation.
20. The sub-brokers / authorized persons should exercise utmost vigil over the transactions of the clients and inform ISS immediately when there is any doubt / suspicion about the activities of their clients.

8 Procedure for determine suspicious transaction

A transaction is suspicious or not should be determine only after obtaining clarification in writing from client/sub broker the reply given should be scrutinized with the trading patterns and the financial details furnish by the client .If the reply given by the client / sub broker is satisfactory then in that case the transaction need not be treated as suspicious .However if the client or sub broker intentionally face to given reply or reply given not satisfactory the facts should be informed the client sub broker stating that the transaction is of suspicious nature as per the PMLA policy and the necessary action should be taken.

9. Reporting

Any suspicious transaction will be immediately notified by the Principal Officer or any other designated officer. The notification will be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it be ensured that there is continuity in dealing with the client as normal until told otherwise and the client is 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.

10. Maintenance of records

Pursuant to provisions contained in SEBI Circular no. CIR/MIRSD/1/2014 dated March 12, 2014, ISS shall maintain records of transactions of clients as per sub clause 8.1 of part II, and shall maintain details pertaining to identity of clients as per clause 8.2 of part II for the period of Five years *after the business relationship between a client and ISS has ended or the account has been closed, whichever is later.*

11. Principal Officer

Principal Officer appointed under AML guidelines, shall, with the help of AML team shall monitor all the transactions listed above and shall submit periodical CTRs and STRs.

Vide SEBI Circular no. CIR/MIRSD/1/2014 dated March 12, 2014 addition of requirement of designated director; we have also appointed our whole time director &

CEO as a designated director.

12. Hiring of Employees and their Training

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

13. AML Team

An AML team shall be formed which will monitor the transactions listed above on an ongoing basis, analyze transactions, identify transactions that are suspicious in nature and report the same to the concerned authority through the Principal Officer.

14. Review of the Policy

The policy will reviewed be at regular intervals or as and when considered necessary by the Board.

15. Investors Education

Implementation of KYC procedures requires the company to demand certain information from customers which shall be of personal nature or which have thereto never been called for. This may sometimes lead to lot of questioning by the customer as to the motive and purpose of collecting such information. The company shall prepare specific literature/pamphlets etc., so as to educate the investors of the objectives of the KYC programme. The front desk staffs shall be specifically trained to handle such situations while dealing with investors.

ISS will upload its PMLA Policy with changes in the Policy from time to time on its website for creating awareness amongst the Investors.