

# **PMLA POLICY**

## **ADOPTED BY**

### **B. LODHA SECURITIES LIMITED**

#### **MEMBER: - BSE.**

**The Prevention of Money-Laundering Act , 2002 (as amended ) was notified on July 01, 2005 . Subsequent to this the Securities and Exchange Board of India has on 18<sup>th</sup> January 2006 required market intermediaries to adopt a policy framework with respect to anti-money laundering measures to be followed by the intermediaries . B . Lodha Securities Limited , is inter alia a stock broker needs to adhere to the same. Policy framed based on Prevention of Money Laundering Act, 2002 and the Rules framed there under.**

#### **Customer Due Diligence/KYC Standards**

**New customer acceptance procedures adopted include following processes:**

- a) Customer identification and verification depending on nature /status of the customer and kind of transactions that are expected by the customer.
- b) False / incorrect identification of documents is not done.
- c) Client should remain present for registration personally

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- d) Compliance with guidelines issued by various regulators such as SEBI, RBI etc.
- e) Establishing identity of the client, verification of addresses, phone numbers and other details.
- f) Obtaining sufficient information in order to identify persons who beneficially own or control the trading account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by entity other than the client
- g) Verification of the genuineness of the PAN provided by the client such as comparing with original PAN, checking details on the Income tax website etc.
- h) Checking original documents before accepting a copy.
- i) Asking for any additional information as deemed fit on case to case basis to satisfy about the genuineness and financial standing of the client.
- j) Whether the client has any criminal background, whether he has been at any point of time been associated in any civil or criminal proceedings anywhere.
- k) Checking whether at any point of time he has been banned from trading in the stock market.
- l) Clear processes for introduction of clients by members' employees.

### **For existing clients processes include:**

- a) Review of KYC details of all the existing active clients in context to the PMLA 2002 requirements.
- b) Classification of clients into high, medium or low risk categories based on KYC details, trading activity etc for closer monitoring of high risk categories.
- c) Obtaining of annual financial statements from all clients, particularly those in high risk categories.
- d) In case of non individuals additional information about the directors, partners, dominant promoters, major shareholders is obtained.

### **Risk based approach:**

Classification of both the new and existing clients into high, medium or low risk category depending on parameters such as the customer's background, type of business relationship,

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transactions etc. Application of each of the customer due diligence measures on a risk sensitive basis and adoption of an enhanced customer due diligence process for high risk categories of customers and vice-à-versa.

Following Risk based KYC procedures are adopted for all clients:

1. Large number of accounts having a common account holder
2. Unexplained transfers between multiple accounts with no rationale
3. Unusual activity compared to past transactions
4. Doubt over the real beneficiary of the account
5. Payout/pay-in of funds and securities transferred to /from a third party
6. Off market transactions especially in illiquid stock and in F & O, at unrealistic prices
7. Large sums being transferred from overseas for making payments
8. Inconsistent with the clients' financial background

### **Clients of special category (CSC)**

Such clients include the following

- a. Non resident clients
- b. High net worth clients
- c. Trust, Charities, NGOs and organizations receiving donations
- d. Companies having close family shareholdings or beneficial ownership
- e. Politically exposed persons (PEP) of foreign origin
- f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)
- g. Companies offering foreign exchange offerings
- h. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- i. Non face to face clients
- j. Clients with dubious reputation as per public information available etc.

### **Client Identification Programme :**

The 'Know your Client' (KYC) policy clearly spell out the client Identification procedure to be followed while registering the new clients.

The KYC /client identification procedures have been specified as per the SEBI guidelines given by time to time . The mandatory documents which are required to obtained from the

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clients are mentioned on the agreement. As per SEBI guidelines PAN is the compulsory documents which needs to be collected .

We have a system to determine whether our existing / potential customer is a politically exposed person (PEP) for that we may ask additional information to clients or access to publicly available information etc.

Such PEP clients , if any , needs to obtain the approval from our Chairman or any of our Directors before establishing business relationship with us.

Our Principal officer will verify the sources of funds from clients identified as PEP.

Each original documents are verified before accepting the copies of the same. Failure to provide any documents by any of the prospective client is noted and reported to the Director immediately.

Record Keeping :

If there are any suspected drug related or other laundered money or terrorist property, we retain the following information for the accounts of our customers in order to maintain a satisfactory audit trail:

1. the beneficial owner of the account
2. the volume of the funds flowing through the account; and
3. for selected transactions:
  - the origin of funds.
  - The form in which the funds were offered or withdrawn
  - the identity of the person undertaking the transaction;
  - the destination of the funds;
  - the form of instruction and authority.

### **Monitoring & Reporting of Suspicious Transactions:**

Ongoing monitoring of accounts which includes

1. Identification and detection of apparently abnormal transactions.
2. Generation of necessary reports/alerts based on clients' profile, nature of business, trading pattern of clients for identifying and detecting such transactions. These reports/alerts are analyzed to establish suspicion or otherwise for the purpose of reporting such transactions. Following parameters are used:
  - i) Clients whose identity verification seems difficult or clients appear not to cooperate

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- ii) Substantial increase in activity without any apparent cause
- iii) Large number of accounts having common parameters such as common partners / directors / promoters / address / email address / telephone numbers / introducers or authorized signatories;
- iv) Transactions with no apparent economic or business rationale
- v) Sudden activity in dormant accounts;
- vi) Source of funds are doubtful or inconsistency in payment pattern;
- vii) Unusual and large cash deposits made by an individual or business;
- viii) Transfer of investment proceeds to apparently unrelated third parties;
- ix) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- x) Purchases made on own account transferred to a third party through off market transactions through DP Accounts;
- xi) Suspicious off market transactions;
- xii) Large deals at prices away from the market.

### **Reporting of Suspicious Transactions:**

Processes for alert generation, examination and reporting include:

- Audit trail for all alerts generated till they are reported to FIU / closed
- Clear enunciation of responsibilities at each stage of process from generation, examination, recording and reporting
- Escalation through the organization to the principal officer designated for PMLA
- Confidentiality of STRs filed
- Retention of records

### **On going training to Employees:**

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- 1) Importance of PMLA Act & its requirement to employees through training.
- 2) Ensuring that all the operating and management staff fully understands their responsibilities under PMLA for strict adherence to customer due diligence requirements from establishment of new accounts to transaction monitoring and reporting suspicious transactions to the FIU.
- 3) Organising suitable training programmes wherever required for new staff, front-line staff, sub-brokers, supervisory staff, controllers and product planning personnel.

### **Audit/Testing of Anti Money Laundering Program.**

The Anti Money Laundering program is subject to periodic audit ,specifically with regard to testing its adequacy to meet the compliance requirements. The audit/testing is conducted by member's own personnel not involved in framing or implementing the AML program or it may be done by a qualified third party. The report of such an audit/testing is placed before the senior management for making suitable modifications/improvements in the AML program.

### **Risk based approach**

The clients will categorised be into Low, Medium and High Risk clients based on the firm policy from time to time

### **Identification of Clients of Special Category**

The company will classify clients as Clients of Special Category and the same shall be subject to periodic review by the Principal Officer

- a. Non resident clients
- b. High networth clients,
- c. Trust, Charities, NGOs and organizations receiving donations
- d. Companies having close family shareholdings or beneficial ownership
- e. Politically exposed persons (PEP) of foreign origin
- f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)
- g. Companies offering foreign exchange offerings
- h. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- i. Non face to face clients
- j. Clients with dubious reputation as per public information available etc.

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### **Factors of Risk Perception having regard to :**

#### **Client`s Location ( Registered / Correspondence/ other address )**

- Face to Face clients within city Low Risk
- Face to Face clients of other than city Low Risk
- Client Introduced by existing Face to Face Clients Low Risk
- Client Introduced by other Existing Clients Medium Risk
- Direct Clients of city Medium Risk
- Direct Clients of other than city High Risk
- Non resident Clients High Risk

#### **Nature of Business Activity, Trading Turnover etc**

- Retail clients ( average daily turnover < Rs 10 Lakhs or net settlement obligation < Rs 2 Lakhs ) Low Risk
- Retail clients ( average daily turnover < Rs 25 Lakhs or net settlement obligation < Rs 5 Lakhs ) Medium Risk
- HNI Clients ( average daily turnover > Rs 25 Lakhs or net settlement obligation > Rs 5 Lakhs ) High Risk

#### **Client of Special Categories as defined under Para A (a) of these Guidelines**

Very High Risk

Ensure that no account is opened where we unable to apply appropriate clients due diligence measures / KYC policies. This shall be applicable in cases where it is not possible to ascertain the identity of the client or information provided by the client is suspected to be non genuine or perceived non co-operation of the client in providing full and complete information. We should not continue to do business with such a person and file a suspicious activity report. We should also evaluate whether there is suspicious trading in the account and whether there is a need to freeze OR Not.

**List of black listed clients and suspicious clients is maintained for reference of employees.**

Whereas no trading is been taken for clients mentioned in black list, to trade for clients in suspicious list one is to be extra vigilant. :

1 ) All the persons who are debarred/warned by SEBI/Exchanges to access capital market are treated as black list clients or any client against whom firm has reported to authorities for alleged money laundering activities and matter is still pending before or order is given against client.

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2 ) An illustrative list is provided below for reference of employees as what could be a suspicious transaction or irregular transaction:

a) If the size of order is not commensurate with client income level disclosed or if its more than his usual order size.

b) If the order is placed by dormant client i.e. order placed by client after a period of 1 year from his/her last transaction.

c) Any transaction, which does not make economic sense or is complex or unusually large, should be immediately brought to the notice of respective head of department and Compliance department.

d) Clients whose identity verification seems difficult or clients appear not to cooperate.

e) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;

f) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;

g) Substantial increases in business without apparent cause;

h) Unusually large cash deposits made by an individual or business;

i) Clients transferring large sums of money to or from overseas locations with instructions/request for payment in cash;

j) 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;

k) Requests to transfer money or securities to third parties with or without any known connection to our customers;

l) The transaction is not in keeping with the counterparty's normal activity;

m) The transaction is unusual, e.g., with respect to normal market size and frequency;

n) There is an unusual and unnecessary involvement of an intermediary;

o) The transaction is not settled in the normal manner, e.g., an offer to settle in cash or settlement by registration or delivery of securities to a third party;

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p) Settlement is made by way of bearer securities from outside a recognized clearing system;

q) Cash movements in and out of an account within a short period of time.

Any suspicious transaction is immediately notified to the Money Laundering Control Officer/Principal officer or any other designated officer within the firm.

The notification is 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 is been brought to the notice of the report/suspicion.

In some cases transactions are aborted by clients on being asked to give some details or to provide documents. Further BLSL has to report all such transaction in STR's, even if not completed by clients, irrespective of the amount of the transaction.

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

In terms of the PML Rules, BLSL is aware that it is required to report information relating to cash and suspicious transactions to the Director,

**Financial Intelligence Unit-India  
(FIU-IND) at the following address:**

**Director, FIU-IND,  
Financial Intelligence Unit-India,  
6th Floor, Hotel Samrat,  
Chanakyapuri,  
New Delhi-110021.**

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

**Annexure I**

**Illustrative list of Suspicious Transactions:**

1. Customer insisting on anonymity, reluctance to provide identifying information, or providing minimal, seemingly fictitious information
2. Cash based suspicious transactions for payment of premium and top ups over and above Rs. 5 lakhs per person per month. It should also consider multiple DDs each denominated for less than Rs. 50,000/-
3. Frequent free look surrenders by customers;
4. Assignments to unrelated parties without valid consideration;
5. Request for a purchase of policy in amount considered beyond his apparent need;
6. Policy from a place where he does not reside or is employed;
7. Unusual terminating of policies and refunds;
8. Frequent request for change in addresses
9. Borrowing the maximum amount against a policy soon after buying it
10. Inflated or totally fraudulent claims e.g. by arson or other means causing a fraudulent claim to be made to recover part of the invested illegitimate funds
11. Overpayment of premiums with a request for a refund of the amount overpaid.