

IDBI CAPITAL MARKETS & SECURITIES LIMITED

PREVENTION OF MONEY LAUNDERING (PML) POLICY

1. INTRODUCTION

This Policy has been framed by IDBI Capital Markets & Securities Limited (“IDBI Capital”/ “the Company”) in order to comply with the applicable Anti Money Laundering Standards and to take measures to prevent IDBI Capital from being used as a vehicle for Money Laundering and Terrorist Financing.

Money Laundering and Terrorist Financing

Money laundering is the process by which the illegal origin of wealth is disguised to avoid suspicion of law enforcement authorities and to wipe out the trail of incriminating evidence.

Terrorists and terrorist organisations though may not be keen to disguise the origin of their money but would be interested in concealing the destination and the purpose for which the money is collected. Therefore terrorists and terrorist organization could also employ techniques to hide and disguise money. Governments around the world recognize the corrosive dangers that unchecked money laundering poses to their economic and political systems and have prescribed acts, rules and regulation for prevention of money laundering.

Need for this Policy

In India, The Prevention of Money Laundering Act, 2005 forms the core of the legal framework to combat money laundering and terrorist financing in India. The Prevention of Money Laundering Act, 2005 came into effect from 1st July 2005 and has been amended on various occasions since.

The Prevention of Money Laundering Act, 2005 imposes an obligation on every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under Section 12 of the SEBI Act) , to verify the identity of investors and maintain records of transactions as specified in the Prevention of Money Laundering Act, 2005 and the Rules, Regulations and Notifications thereunder.

Pursuant to the recommendations made by the Financial Action Task Force (FATF) on Anti Money Laundering standards, The Securities and Exchange Board of India, has from time to time issued circulars directing Intermediaries to adopt Strict Customer Due Diligence practices in order to prevent Money Laundering.

IDBI Capital is an intermediary in the securities market registered with the Securities and Exchange Board of India as a Stock Broker, Portfolio Manager, Merchant Banker, Investment Advisor and a Depository Participant and is thus required to adopt and implement a policy for Prevention of Money Laundering pursuant to the Prevention of Money Laundering Act, 2005 and the Rules, Regulations and Notifications thereunder.

2. POLICY OBJECTIVES:

This Policy aims to achieve the following objectives:

- To protect *the Company* from being used as a vehicle for money laundering/terrorist financing
- To follow thorough “Know Your Customer” (KYC) policies and procedures in the course of day-to-day business.
- To take appropriate action, once suspicious activities are detected, and report them to the designated authorities in accordance with applicable law / laid down procedures.
- To comply with applicable laws as well as norms adopted internationally with reference to Money Laundering.

3. APPLICABILITY:

This Policy applies to all employees of IDBI Capital including employees at Head Office, Branches (domestic & globally) and also covers employees on deputation, outsourced employees, business associates and agents dealing with the Company.

Applicability of this Policy to various verticals/business groups of IDBI Capital

(i) Institutional Broking

Appropriate Customer Due Diligence shall be carried out in respect of all Institutional Clients whether registered with SEBI or not. Further, trades of such clients shall be monitored and suspicious transactions, if any, shall be duly reported in accordance with this Policy.

(ii) Retail Broking

KYC norms as specified by SEBI/ Exchanges should be adhered to before enlisting clients. Further, trades of such clients shall be monitored and suspicious transactions, if any, shall be duly reported in accordance with this Policy.

(iii) Funds Management

Necessary Customer Acceptance Norms shall be followed in respect of the Fund Management Activity. In case of acceptance of funds/securities from Retail Clients for the purpose of Portfolio Management, sources of funds/securities shall be identified.

(iv) Depository Participant Activities

The Depository activity shall be covered within the purview of this Policy. Necessary Customer Due Diligence shall be undertaken. KYC norms as specified by the Depository should be followed for opening accounts. Alerts as generated by the Depositories shall be reviewed and suspicious transaction, if any, shall be duly reported.

(v) Investment Banking

As such transactions do not involve routing of funds and securities through IDBI Capital for transfer from one party to another the provisions of this Policy shall not specifically apply to Investment Banking Transactions, however the Investment Banking Team shall adhere to the master circulars issued by SEBI in respect of PMLA from time to time.

4. IMPLEMENTATION OF THIS POLICY

Appointment of Designated Director

The Managing Director and CEO will be the Designated Director for the Purpose of Prevention of Money Laundering and shall be responsible for overall compliance of the provisions of the Prevention of Money Laundering Act, 2005 and the Rules, Regulations and Notifications thereunder.

Appointment of Principal Officer

The Chief Financial Officer will be the Principal Officer for the Purpose of Prevention of Money Laundering and shall:

- ❖ Be responsible for compliance of the provisions of the Prevention of Money Laundering Act, 2005 and the Rules, Regulations and Notifications thereunder
- ❖ Act as a central reference point and play an active role in identification & assessment of potentially suspicious transactions
- ❖ Ensure that the Company discharges its legal obligation to report suspicious transactions to the concerned authorities.
- ❖ Monitor the implementation of Prevention of Money Laundering Policy
- ❖ Report transactions and sharing of information as required under the law and to the Management of the Company/FIU from time to time as deemed necessary.
- ❖ Liaison with law enforcement agencies
- ❖ Provide clarifications on the provisions of the Act, Rules, Guidelines and the Policy of the company pertaining to Prevention of Money Laundering

The Principal Officer shall report to the Managing Director and CEO of the Company. Any change in Principal Officer shall be with the written approval of the Managing Director only.

5. STRUCTURE OF THE POLICY

The main aspect of this policy is the Customer Due Diligence Process which means:

- ❖ Obtaining sufficient information about the client in order to identify who is the beneficial owner of the securities or on whose behalf transaction is conducted.
- ❖ Verifying the customer's identity using reliable, independent source document, data or information.
- ❖ Verifying the identity of the beneficial owner/majority shareholder/beneficiary of the client and/or the person on whose behalf a transaction is being conducted
- ❖
- ❖ Understand the ownership and control structure of the client.
- ❖ Conduct on-going due diligence and scrutiny of the account/client to ensure that the transactions conducted are consistent with the client's background/financial status, its activities and risk profile taking into account where necessary the client's source of funds.
- ❖ Periodically update all documents, data or information of the clients and beneficial owners.

5.1. The Customer Due Diligence Process includes three specific parameters:

- A. Policy for Acceptance of Clients
- B. Client Identification Procedure
- C. Suspicious Transactions identification & reporting

A. CUSTOMER ACCEPTANCE POLICY

The Customer Acceptance Policies and Procedures specified herein below aim to identify the types of clients that are likely to pose a higher than average risk of Money Laundering or Terrorist Financing. The Customer Acceptance Norms specified herein below shall be applicable to clients sourced directly by employees of IDBI Capital and also with regard to clients sourced through Business Associates, Feet on Street, Marketing agents etc. of IDBI Capital.

All persons sourcing clients on behalf of IDBI Capital shall be required to adhere to the requirements specified herein below that are aimed to identify the types of clients that are likely to pose a higher than the average risk of money laundering or terrorist financing:

1. **In-person verification:** In person verification shall be mandatory for all clients. Accounts shall be opened only for those persons whose in-person verification has been done as per

the SEBI/Stock Exchange/Depository or other regulations in this regard. The client should visit the Branch or the authorised official may visit the client at the residence/office to complete the in-person verification procedures.

2. **KYC Procedures:** Accept only clients in respect of whom complete KYC procedures has been completed. Client account shall not be opened in case the client fails to submit any required documents or if the identity of the client cannot be established or the information provided by the client is suspected to be non - genuine:
 - a. Documents shall be accepted as per the checklists given from time to time
 - b. Photocopies submitted by the clients shall be compulsorily verified with original
 - c. All details in the form shall be filled in by the clients without fail
 - d. Do not compromise on submission of mandatory information – Accounts should not be opened where the client refuses to provide information/documents.

In case of a suspicious client, information should be forwarded to the Compliance Team for reporting vide STR.

3. **Benami Accounts:** No account is opened in a fictitious / benami name or on an anonymous basis.
4. **Debarred Clients:** Before clients opens an account check whether the client's name matches with names in any of the following lists:
 - SEBI Debarred List
 - UNSC List
 - PEP
 - Any list issued by Government of India
 - OFAC (Office of Foreign Access and Control given by US Treasury Dept.)
 - such other list that may be specified by the Regulators/Compliance Department from time to time

Do not open accounts with a known criminal background.

5. **Clients of Special Category:** Due care shall be taken while accepting clients of Special Category

Clients of Special Category include but shall not be limited to the following-

- i. Non- resident clients
- ii. High net-worth clients
- iii. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations
- iv. Companies having close family shareholdings or beneficial ownership

- v. **Politically Exposed Persons (PEP)**
(i.e. 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. and family members or close relatives of PEPs)
- vi. Companies offering foreign exchange offerings
- vii. Clients in high risk countries or geographic areas
(i.e - 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 Havens/ sponsors of international terrorism offshore financial centers, tax havens, countries where fraud is highly prevalent
 - Countries which do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org) from time to time
- viii. Non face to face clients
- ix. Clients with dubious reputation as per public information available etc.

Officials shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

Treatment of Accounts of Clients of Special Category

1. **NRI:** While opening NRI account utmost care should be exercised. While opening an NRI Repatriable or NRI Non Repatriable inter alia, collect the following documents from the clients:

NRI Repatriable/Non Repatriable

1. PAN Card Copy
 2. Passport Copy
 3. Indian Address Proof
 4. Cancelled Cheque copy of NRE A/c
 5. PIS Permission issued from RBI.
 6. NRI Address Proof
 7. Bank Statement Copy.
 8. Client Master Copy for demat account.
2. **High Networth Clients:** High networth clients could be classified as such if at the account opening stage or during the course of the relationship, it is realized that the clients investments or the appetite for investment is high.

3. Trust, Charity and NGOs: Both public as well private, registered as well un-registered trust will have to be classified in the special category. Any Charitable or Non-governmental organization or a no Profit Organization will be also classified herein.

4 Close family shareholdings or Beneficial Ownership: In case of close family shareholdings the objective is to understand whether the beneficiaries of two or more accounts, which may also be opened at different times are same, then both need to be marked under this special category.

5. Politically Exposed Persons: In case where the client or the beneficial owner/majority shareholder/beneficiary of the client is a PEP, the account should be opened only after consent of the senior management (Head Retail and Principal Officer) and all the required documents are collected and client should be marked as PEP in records. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEPIDBI Capital shall obtain senior management approval to continue the business relationship. Verify the sources of funds of the PEP.

Enhanced due diligence measures shall be applicable in PEP accounts including where the beneficial owner of the client is PEP. Further the sources of funds of the PEP's shall be verified from the proof of financial information submitted.

6. Company offering foreign Exchanges: At the account opening stage if the individual or the entity is registered foreign exchange dealer, then the same may be categorized.

7. Client in High Risk Country: Do open any account received from client who was residing in a high risk jurisdiction and may have investment proceeds which may have also originated from these countries. The list may be obtained from the Financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org).

8. Client with dubious Public Reputation: If a client's reputation during the opening of the account or post opening the account is known to be not good, then the same is marked in this special category.

B. CUSTOMER IDENTIFICATION POLICY

The following Customer Identification Norms shall be adhered to in respect of all new clients to establish the identity of the client along with firm proof of address to prevent opening of account which is fictitious/benami/anonymous in nature.

SEBI/the Stock Exchanges/the Depositories and other regulatory authorities under which IDBI Capital is governed from time to time specify various KYC norms/guidelines that have to be adhered to in order to be able to Identify Customers. Such Norms and guidelines should be followed scrupulously at the time of customer acceptance. Further given below are a list of Basic Requirements to be obtained from various types of clients at the time of account opening.

Proof Of Identity

Every client would be identified based on only photo identity as prescribed under applicable KYC norms. The PAN Card, which is compulsory, would also serve as a photo identity. Other Identity proofs which might be collected for verification are as under:

- I. Passport
- II. Voter ID Card
- III. Driving license
- IV. Aadhar Card
- V. PAN card with photograph
- VI. Unique Identification Number (UID) (Aadhar Card)
- VII. Identity card/document with applicant's Photo, issued by
 - a) Central/State Government and its Departments,
 - b) Statutory/Regulatory Authorities,
 - c) Public Sector Undertakings,
 - d) Scheduled Commercial Banks,
 - e) Public Financial Institutions,
 - f) Colleges affiliated to Universities (**this can be treated as valid only till the time the applicant is a student**),
 - g) Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members, and
 - h) Credit cards/Debit cards issued by Banks.

Such other proof of identity as may be permissible by the respective regulator from time to time

Proof of Address

The address of the Client would be verified from one of the following:

- I. Ration card
- II. Passport
- III. Voter ID Card
- IV. Aadhar Card
- V. Driving license
- VI. Bank passbook / Bank Statement
- VII. Unique Identification Number (UID) (Aadhar Card)
- VIII. Verified copies of
 - a) Electricity bills (**not more than three months old**),
 - b) Residence Telephone bills (**not more than three months old**) and
 - c) Leave and License agreement / Agreement for sale.
- IX. Self-declaration by High Court & Supreme Court judges, giving the new address **in respect of their own accounts**.
- X. Identity card/document with address, issued by
 - a) Central/State Government and its Departments,
 - b) Statutory/Regulatory Authorities,
 - c) Public Sector Undertakings,
 - d) Scheduled Commercial Banks,
 - e) Public Financial Institutions,
 - f) Colleges affiliated to Universities (**this can be treated as valid only till the time the applicant is a student**) and
 - g) Professional Bodies such as ICAI, ICWAI, Bar Council etc., to their Members.

- i. Where the Client is a Company, it shall submit the following documents:**
 - a. Certificate of incorporation
 - b. Memorandum and Articles of Association
 - c. A resolution of Board of Directors and Power of Attorney granted to its managers, officers or employees on its behalf

- ii. Where the Client is a Partnership firm, it shall submit the following documents:**
 - a. Registration of certificate
 - b. Partnership deed
- iii. Where the Client is a trust, it shall submit the following documents:**
 - a. Registration of certificate
 - b. Trust Deed
 - c. Aadhar number and Permanent Account Numbers or FORM 60 as defined as defined in the Income Tax Rules, 1962 issued to person holding an attorney to transact on its behalf where an Aadhar number has not been assigned, proof of application towards enrollment for Aadhar and in case the Permanent Account Number is not submitted , one certified copy of an officially valid document shall be submitted.

- iv. Where the Client is an unincorporated association or a body of individual, it shall submit the following documents:**
 - a. Resolution of the managing body of such association or body of individuals
 - b. Power of attorney granted to him to transact on its behalf

Such other proof of address as may be permissible by the respective regulator from time to time

Basic KYC Norms to be followed for verification / scrutiny

- a) The photograph in the PAN card and in any other address proof which contains a photograph must match. This should be followed to ensure that no account is opened in anonymous or fictitious names.

- b) As per SEBI, NSDL, NSE & BSE guidelines, all Address and Identification proofs, should be verified with the originals by any of the employee of IDBI Capital. Care should be taken that the employee, who is verifying the copies of the proofs, should be competent to do the same.

- c) In-Person verification of Applicant (s) made compulsory as per SEBI, Exchanges and NSDL norms should be done by an employee of IDBI Capital only or as specified by the Regulators from time to time. The client should visit the Branch or the authorised official may visit the client at the residence/office to complete the in-per verification procedures..
- d) Proof should be collected for both permanent address and correspondence address and the same should be verified with originals.
- e) Notwithstanding the above, the Company prohibits doing business with any individual or entity whose identity cannot be determined or who refuses to provide information or who have provided information that contains significant inconsistencies which cannot be resolved after due investigation.
- f) Verify whether any of the existing Client or new Applicant, falls within the UN sanction list and/ or is debarred by SEBI from dealing in securities. In this case, if any of the Existing Client falls in either of the categories, the said Client would be suspended from trading immediately & the matter would be reported to the concerned Regulatory Authority if required. In case of new applicant falling within the category, such account should not be opened. Clients name in the regulatory orders issued by the exchanges on a day to day basis should be barred from trading with immediate effective.
- g) In case of Non Resident clients, remittance only from approval banking channels will be accepted. In case of FIIs, the investment must be from the current account maintained with the Reserve Bank of India.
- h) Clients should not be activated to trade in derivative segment unless the clients submit a valid proof of financial information.
- i) In case the client desires to authorize a third person to operate the account. The client shall provide a duly power signed POA/document authorizing the attorney. The client shall be responsible for all the acts of the attorney. PAN Card of the Attorney shall also be accepted at the time of account opening.

The above constitutes our KYC norms and will be strictly followed so that the Company has no doubt about the Client identity. The account of any existing Client not able to satisfy his/her identity will be frozen till identity is established

These norms may be changed by Compliance Department from time to time to adhere regulatory requirements and to have stringent anti money laundering measures.

Identification of Beneficial Ownership & Control

The Company shall 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 –

i. 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, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

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 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.

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.

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.

ii. For client which is a trust:

If the client is a trust, the company shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler 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.

iii. Exemption in case of listed companies:

If 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.

iv. Applicability for foreign investors:

For dealing with foreign investors' the Company may refer the clarifications issued vide SEBI circulars CIR/MIRSD/11/2012 dated September 5, 2012 and CIR/ MIRSD/ 07/ 2013 dated September 12, 2013, for the purpose of identification of beneficial ownership of the client.

The compliance of the aforementioned provision on identification of beneficial ownership shall be monitored by the Board of Directors of IDBI Capital.

Filing with Central KYC

The Company shall within ten days after the opening of an account of a client, file the electronic copy of the client's KYC records with the Central KYC Records Registry.

The Company shall notify the KYC identifier provided by the Central KYC Records Registry to the Client.

Where a client, submits a KYC Identifier to the Company, the Company shall retrieve the KYC records online from the Central KYC Records Registry by using the KYC Identifier and shall not require a client to submit the same KYC records or information or any other additional identification documents or details, unless -

(i) there is a change in the information of the client as existing in the records of Central KYC Records Registry;

(ii) the current address of the client is required to be verified;

(iii) the Company considers it necessary in order to verify the identity or address of the client, or to perform enhanced due diligence or to build an appropriate risk profile of the client.

After obtaining additional or updated information from a client the Company shall update the existing KYC records of the client with the Central KYC Records Registry.

IDBI Capital shall not use the KYC records of a client obtained from the Central KYC Records Registry for purposes other than verifying the identity or address of the client and shall not transfer KYC records or any information contained therein to any third party unless authorised to do so by the client or by the concerned Regulator/Authority.

Ongoing Customer Due Diligence

- Any communication in respect of the Client shall be with the Client only
- Trade Orders/Instructions shall be accepted from the Client only.
- In case the client wishes to authorise a third party to give trade orders/instructions to the company in the clients account, a duly notarized Power of Attorney shall be provided by the Client and KYC documents like Proof of Identity, Proof of Address and Relationship with the client of such authorised person shall be obtained.
- The Employees of the Company and the Clients shall adhere to the guidelines issued by the Company in this regard from time to time.

- 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.
- Understand the ownership and control structure of the client;
- Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds; and
- The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).
- **Update of Customer Information:** Updated documents, data or information of all clients and beneficial owners collected under the Client Due Diligence process shall be called for from the clients:
 - i. On an annual basis- at the beginning of the financial year
 - ii At the time of reactivation of inactive clients

6. RISK CATEGORIZATION AND RISK ASSESSMENT

All clients should be categorized on the basis of the risk of money laundering or terrorist financing that they are likely to pose. The clients can be classified into the medium or high risk category depending on various criteria like Client wise Large Turnovers, particular Script exposure / trading , client's income range , trading pattern, client is of special category. If any of the client would satisfy the above criteria, depending on the criteria satisfied the same would be classified into medium or high risk.

Clients should broadly be classified in the following categories:

Low Risk	Clients who pose low or nil risk. They are clients who have a respectable social and financial standing. Clients who fulfill obligations on time.
Medium Risk	Intraday clients or speculative client.
High Risk	Clients who have defaulted in the past. Clients who have a suspicious background. Clients of Special Category Dormant Accounts

As per clause 2.2.4 and 2.2.5 of Guidelines on detecting suspicious transactions under Rule 7 (3) of the PML Rules,2005.

The following shall also be categorized as High Risk Clients/Transactions

Clause 2.2.4

- Countries subject to sanctions, embargoes or similar measures issued by, for example, the United Nations (“UN”). In addition, in some circumstances, countries subject to sanctions or measures similar to those issued by bodies such as the UN, but which may not be universally recognized, may be given credence by a company because of the standing of the issuer and the nature of the measures.
- Countries identified by the Financial Action Task Force (“FATF”) as non-co-operative countries and territories (NCCT) in the fight against money laundering or identified by credible sources as lacking appropriate money laundering laws and regulations
- Countries identified by credible sources as providing funding or support for terrorist activities.
- Countries identified by credible sources as having significant levels of corruption, or other criminal activity.

Clause 2.2.5

- Cash (and cash equivalent) intensive businesses
- Money services businesses (remittance houses, money transfer agents and bank note traders
- Casinos, betting and other gambling related activities, or
- businesses that while not normally cash intensive, generate substantial amounts of cash for certain transactions.
- Unregulated charities and other unregulated “not for profit” organisations (especially those operating on a “cross-border “basis)
- Dealers in high value or precious goods (e.g. jewel, gem and precious metals dealers, art and antique dealers and auction houses, estate agents and real estate brokers).
- Clients that are politically exposed or “PEPs”

Other factors like 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 shall also be considered while assessing the risk posed by the client.

The above categorization shall be done initially at the time of opening of the Clients account and shall be reviewed on an ongoing basis depending of the trading pattern etc. of the clients.

Initial Risk categorization of all the clients would be done by the CCR Team depending on the financials details/ networth declarations and KYC declaration so of the clients given by the clients at time of account opening and regular updates received from the clients. Branch

Officials shall inform CCR team in the event they feel the client belongs to the Medium or High Risk Category and specify reasons for the same. Risk categorization would also be modified depending on the trading patterns of the clients.

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.

High degree of due diligence shall be applied in respect of clients of special category and clients categorized as "High Risk Clients". Further low risk provisions shall not be applied where this are suspicious of ML/FT or when factors give rise to believe that the customer does not in fact pose a low risk.

Instructions on risk parameters may be given by the Principal Officer/Compliance Team from time to time.

The internal Auditors shall conduct the audit based on the Risk parameters assigned by the Management from time to time.

7. **SUSPICIOUS TRANSACTIONS**

"Suspicious transaction" means a transaction including an attempted transaction, whether or not made in cash, which to a person acting in good faith-

(a) gives rise to a reasonable ground of suspicion that it may involve proceeds of an offence, regardless of the value involved; or

(b) appears to be made in circumstances of unusual or unjustified complexity; or

(c) appears to have no economic rationale or bona fide purpose; or

(d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;]

[Explanation. - Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist acts or by a terrorist, terrorist organisation or those who finance or are attempting to finance terrorism.]

Suspicious transactions involve funds which are derived from illegal activities or are transactions that are intended/ conducted in order to hide or disguise funds or assets derived from illegal activities (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any law or regulation or to avoid any transaction reporting requirement under the law;

The transaction has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the financial institution knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction.

Criteria giving rise to suspicion:

It is difficult to define exactly what constitutes suspicious transactions and as such given below is a list of circumstances where transactions may be considered to be suspicious in nature. This list is only inclusive and not exhaustive. Whether a particular transaction is actually suspicious or not will depend on the background, details of the transactions and other facts and circumstances.

1. Complex /unusually large transactions/ patterns which appear to have no economic purpose.
2. Client having suspicious background or links with known criminals
3. Clients whose identity verification seems difficult.
E.g.:
 - i. False identification documents
 - ii. Identification documents which could not be verified within reasonable time
 - iii. Non face to face Client
 - iv. Doubt over the real beneficiary of the account
 - v. Accounts opened with names very close to other established business entities.
4. Client appears not to co-operate.
5. Use of different accounts by Client alternatively.
6. Sudden activity in dormant accounts
7. Multiple accounts
 - i. Large number of account having a common account holder, authorized signatory with no rationale
 - ii. Unexplained transfers between multiple accounts with no rationale
8. Asset management services for clients where the sources of funds is not clear or not in keeping with the clients' apparent standing/business activity
9. Substantial increase in business without apparent cause (Unusual activity compared to past transactions)
10. Activity materially inconsistent with what would be expected from declared business
11. Inconsistency with clients apparent financial standing
12. In any account circular trading
13. Unusual transactions by Clients of Special Category (CSCs) and business undertaken by shell corporations, offshore banks/financial services, businesses reported to be in the nature of export-import of small items
14. A transaction which gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime/financial activities relating to terrorism
15. A transaction which appears to be a case of insider trading
16. Transactions that reflect likely market manipulations
17. Suspicious off market transactions
18. Value of transaction just under the reporting threshold amount in an apparent attempt to avoid reporting

19. Inconsistency in the payment pattern by the client
20. Trading activity in account of high risk clients based on their profile, business pattern and industry segment
21. Accounts based as 'passed through'. Where no transfer of ownership of securities or trading is occurred in the account and the account is being used only for funds transfers / layering purposes.
22. Large deals at prices away from the market
23. Suspicious off market transactions
24. Purchases made in one client's account and later on transferred to a third party through off market transactions through DP Accounts;
25. Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;
26. Clients based in high risk jurisdictions;
27. Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
28. Attempted transfer of investment proceeds to apparently unrelated third parties
29. 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. It is clarified that intermediaries shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

8. MONITORING

The monitoring for suspicious transaction should be done on following basis.

- The Origin of Funds
- The form in which funds were offered or withdrawn
- The destination of funds
- The form of instruction and authority
- The identity of the person undertaking the transaction

Special attention shall be paid to complex unusually large transactions/patterns have no economic purpose.

Threshold limits for review of various types of transaction and also shall be specified and reviewed by the Company from time to time with approval from.

Monitoring of Transactions at IDBI Capital

Monitoring of the Trading and Depository Transactions of clients availing Stock Broking/DP services of IDBI Capital shall be through the PMLA application.

PMLA software works based on the guidelines and notifications issued by SEBI and Stock Exchanges.

Following are the key features of the software:

- i. Screening of the clients
- ii. Client Master related parameters CSC, Risk, Financial etc.
- iii. Creating a grading system for all the clients

- iv. Alerts Dash Board- generating various types of reports based on trading patterns of the clients
- v. Alert Escalation
- vi. STR Module to report suspicious transaction to FIU

The PMLA monitoring through the software shall be carried out by the following Teams

Department	Broad Responsibility
CCR (account opening team)	Customer Acceptance Due diligence and Initial Risk Categorization
RMS Team	Monitoring of Trading pattern of clients and escalation of prima facie Suspicious Transaction
DP Team	Monitoring of DP Alerts and escalation of prima facie Suspicious Transaction
Principal Officer with Compliance Team	Review of prima facie Suspicious Transactions and reporting to FIU

The following alerts which are not system generated should also be raised to the principal officer if noted by any employee.

Sr. No.	Indicative Rules/Scenario
1	Customer did not open account after being informed about KYC requirements
2	Customer gives false identification documents or documents that appears to be counterfeited, altered or inaccurate.
3	Customer not staying at address provided during account opening
4	Customer uses complex legal structures or where it is difficult to identify the beneficial owner
5	Customer has been the subject of inquiry from any law enforcement agency relating to criminal offences
6	Customer has been the subject of inquiry from any law enforcement agency relating to TF or terrorist activities.
7	Customer's name appears in any order passed by SEBI. SEBI has initiated an investigation and has restrained individuals/entities from buying, selling or dealing in the securities markets, either directly or indirectly, in any matter.
8	Match of customer details with persons reported in local media/open source for criminal offences
9	Match of customer details with persons reported in local media/open source for

	terrorism or terrorist financing related activities.
10	Customer did not complete transaction after queries such source of funds etc
11	Customer changes the information provided after more detailed information is requested
12	Customer provides information that seems minimal, possibly false or inconsistent.
13	Customer travels unexplained distances to conduct transactions
14	Customer makes inquiries or tries to convince staff to avoid reporting
15	Customer could not explain source of funds satisfactorily
16	Transaction is unnecessarily complex for its stated purpose.
17	The amounts or frequency or the stated reason of the transaction does not make sense for the particular customer
18	Transaction involving movement of which is inconsistent with the customer's business
19	Foreign remittance received by NPO not approved by FCRA
20	Where orders are being placed by an individual who holds a POA but is not a family member.
21	Complaint received from public for abuse of account for committing fraud etc.
22	Alert raised by agents about suspicion
23	Alert raised by other institutions, subsidiaries or business associates including cross-border referral
24	Transaction pattern same as that in orders passed by SEBI under the SEBI Act.

Review of Alerts: at the time of reviewing of alerts, the following aspects should also be considered:

- Updated financial information of client details before filing an STR
- Details of occupation of the client.
- Giving details of the scrip, price movement of the scrip, value of transaction, details of holding including duration and any corporate actions
- Creating a watch list of clients based on own experience, risk categorization, parties penalized by SEBI and related accounts.

Suspicious transactions shall be regularly reported to the Principal Officer. There shall be continuity of dealing with the client & client shall not be informed of the Report. In some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents all such attempted transactions shall be reported in STRs, even if not completed by clients, irrespective of the amount of the transaction.

The Compliance Team shall randomly examine selection of transactions to comment on their nature.

The Principal Officer / Compliance Officer (as directed by Principal Officer) may from time to time issue directions / clarifications to respective internal departments in respect of monitoring of transactions.

8.a Freezing of funds, financial assets or economic resources or related services:

The Company shall ensure compliance with the procedures laid down in Order dated August 27, 2009 and Order dated March 14, 2109 under the Unlawful Activities (Prevention) Act, 1967.

Accordingly the Company shall review the updated list of list of individuals/ entities subject to UN sanction measures (hereinafter referred to as 'list of designated individuals/ entities) as forwarded by SEBI from time to time and shall ensure the following:

1. Maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed in the Schedule to the Order (referred to as designated individuals/entities) are holding any funds, financial assets or economic resources or related services held in the form of securities with them.
2. In the event, particulars of any of clients match the particulars of designated individuals/entities, the Company shall immediately, not later than 24 hours from the time of finding out such client, inform full particulars of the funds, financial assets or economic resources or related services held in the form of securities, held by such client on its books to the Joint Secretary (CTCR), Ministry of Home Affairs, at Fax No.011-23092569 and also convey over telephone on 011- 23092736. The particulars apart from being sent by post should necessarily be conveyed through e-mail at jsctcr-mha@gov.in.
3. The Company shall also send the particulars of the communication mentioned in (2) above through post/fax and through e-mail (sebi_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Officer on Special Duty, Integrated Surveillance Department, Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051 as well as the UAPA nodal officer of the state/UT where the account is held, as the case may be, and to FIU-IND.
4. In case the aforementioned details of any of the customers match the particulars of designated individuals/entities **beyond doubt**, the Company should prevent designated persons from conducting financial transactions, under intimation to Joint Secretary (CTCR), Ministry of Home Affairs, at Fax No. 011-23092569 and also convey over telephone on 011- 23092736. The particulars apart from being sent by post should necessarily be conveyed through e-mail at jsctcr-mha@gov.in.
5. The Company shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered by paragraph (2) above carried through or attempted, as per the prescribed format.

6. No prior notice should be given to the designated individuals/entities

8.b Unfreezing of funds, financial assets or economic resources or related services

Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned/held by them has been inadvertently frozen, shall move an application giving the requisite evidence, in writing, to the Company and the State Nodal Officer. The Company shall inform and forward a copy of the application together with full details of the asset frozen given by any individual or entity informing of the funds, financial assets or economic resources or related services have been frozen inadvertently, to the nodal officer of CTCR Division of MHA as per the contact details given in paragraph A(2) above within two working days. The Joint Secretary (CTCR), MHA, being the UAPA nodal officer for (CTCR) Division of MHA, shall cause such verification as may be required on the basis of the evidence furnished by the individual/entity and if he is satisfied, he shall pass an order, within fifteen working days, unfreezing the funds, financial assets or economic resources or related services, owned/held by such applicant under intimation to the Company. However, if it is not possible for any reason to pass an order unfreezing the assets within fifteen working days, the nodal officer of CTCR Division shall inform the applicant.

9. POLICY FOR DORMANT ACCOUNTS

A. DEFINITIONS

The following accounts shall be categorized as Dormant Accounts:

I. Demat accounts

A Demat account having no debit transactions in the last 6 (six) calendar months shall be classified as Dormant account.

II. Trading account

A Trading account in which no trades have been carried out for a period of more than 12 (twelve) consecutive monthsshall be classified as a Dormant Account.

The Terms “Dormant” and “Inactive” shall be used interchangeably.

B. TREATMENT OF DORMANT ACCOUNTS

Transactions in Dormant Trading Accounts

In case of Online or Offline dormant trading accounts in which no trade has been placed during the last 12 (twelve) consecutive months , the account of the client shall be disabled for trading and the client shall not be permitted to execute a fresh transaction in the account unless the client provides either of the following:

- An e-mail request to reactive the account and process the transaction. Such e-mail request shall be sent only from the e-mail id of the Client registered with IDBI Capital; or

- A written request to reactive the account and process the transaction duly signed by Client and submitted to IDBI Capital; or
- By placing the request for activation through the Client's login on the Online Trading Portal of the Company; or
- A telephonic request to reactive the account and process the transaction. Such telephonic request shall be at the specified number of IDBI Capital for which voice recording is active. Further the request shall be processed only after the client provides additional identification as required.

Any further trading by such client should be allowed only after undertaking sufficient due diligence (including IPV) and obtaining the updated information related to KYC from the concerned Client

Debit Transactions in Dormant Demat Accounts:

Debit transactions shall be permitted in dormant demat accounts only on completion of the following procedure:

- The physical DIS received for transaction in a dormant account shall in addition to the normal verification process also be verified by another employee (additional check)
- Independent confirmation shall be obtained from the client before processing of the DIS
- The Employee verifying such transaction with the Client shall record the details of the process, date, time etc. of verification on the Instruction Slip under his signature

C. CHARGES IN CASE OF DORMANT ACCOUNT

- No annual charges will be charged in respect of dormant/inactive accounts
- In case of transactions in dormant accounts, all arrears of charges shall be charged to such clients

D. MONITORING OF TRANSACTIONS IN DORMANT ACCOUNTS

- Sudden activity in dormant accounts may be viewed as a suspicious transaction
- Any debit transactions in dormant Demat accounts or any transactions in dormant Trading accounts shall be reported as an Alert and adequate reports shall be generated
- Such alerts/reports shall be reviewed by the Authorised Official
- Transactions found to be suspicious shall immediately be reported to the Risk Management and Compliance Department
- Evaluation for dormant account will be done every calendar quarter.

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. All such attempted transactions should be reported in STRs, even if not completed by clients, irrespective of the amount of the transaction.

E. OTHERS

1. Return of Assets: The Balances lying in the Dormant Trading accounts shall be returned to the client at the time of the calendar quarterly/monthly settlement. In the event the client wishes to receive the funds/securities from such Trading account before the calendar quarterly/monthly settlement, the Client shall make a request in writing which shall be submitted to IDBI Capital Head Office.
The funds/securities from such Trading account shall be returned on T+1 day from receipt of request.
2. Business Team may decide to take the necessary measures in order to reactivate the dormant clients.

10. SCREENING OF EMPLOYEES AND TRAINING ON PREVENTION OF MONEY LAUNDERING

The Company shall have strict screening measures in place to ensure high standards when hiring employees

Training To Employees

The Company shall provide anti-money laundering training to all its new employees at the time of joining the organization and updates would be provided on periodic basis i.e. yearly basis to its all employees. The training shall review applicable money laundering laws and recent trends in money laundering activities as well as the *Company's* policies and procedures to combat money laundering, including how to recognize and report suspicious transactions.

Training To Investors

There is, therefore, a need for intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. IDBI Capital shall from time to time prepare specific literature/ pamphlets etc. so as to educate clients of the objectives of the AML/CFT programme.

11. MAINTENANCE OF RECORDS

In terms of rules made under the PMLA Act, IDBI Capital shall maintain a record of:

- (a) all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
- (b) all series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs 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 Rs. 10 Lakhs or its equivalent in foreign currency

(c). All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non-monetary account such as demat account, security account maintained by IDBI Capital.

(f) identity and current address or addresses including permanent address or addresses of the Client, the nature of business of the Client and his financial status; Provided that where it is not possible to verify the identity of the Client at the time of opening an account or executing any transaction, the banking company, financial institution and intermediary, as the case may be, shall verify the identity of the Client within a reasonable time after the account has been opened or the transaction has been executed.

The following information shall be preserved in respect of the above.

- a) The nature of the transactions;
- b) The amount of the transaction and the currency in which it is denominated;
- c) The date on which the transaction was conducted; and
- d) The parties to the transaction.

Further satisfactorily audit trail is required to maintain for reconstitution of transactions including but not limited to the following:

the beneficial owner of the account;

b) the volume of the funds flowing through the account; and

c) for selected transactions:

i. the origin of the funds

ii. the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.

iii. the identity of the person undertaking the transaction;

iv. the destination of the funds;

v. the form of instruction and authority.

Suspicious records along with the records of the identity of clients shall be maintained and preserved for a period of five years from the date of transaction between the Client and intermediaries

Date of cessation shall mean date of termination of an account or business relationship”).

Documents evidencing the identity of its clients and beneficial owners (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

Where required by the investigating authority, certain records, e.g. client identification, account files, and business correspondence, shall be retained for periods which may exceed those

required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed

Records of information reported to the Director, Financial Intelligence Unit – India (FIU – IND) : IDBI Capital shall 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 IDBI Capital.

12. REPORTING (DISCLOSURE) OF SUSPICIOUS ACTIVITY

The 'Principal Officer' shall report the information relating to suspicious transactions not later than seven working days on being satisfied that the transaction is suspicious to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address as may modified by the SEBI from time to time or in such form as may be required by the FIU from time to time:

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

The reporting requirements and formats shall be as specified by FIU from time to time. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious.

If any employee suspects or has reasonable ground to believe that a customer is involved in money laundering must promptly be reported to the Principal Officer.

It should be ensured that the securities or money pertaining to suspicious trades should not be returned. However, the relevant authorities should be consulted in determining what action should be taken.

The principal officer shall also report transactions "legally connected" "transactions remotely connected or related to suspicious transactions.

No restrictions should be put on operations in the accounts where an STR has been made. All directors, officers and employees (permanent and temporary) are prohibited from disclosing ("tipping off") the fact that a STR or related information is being reported or provided to the FIU-IND.

13. **MISCELLANEOUS**

- a. All employees shall ensure compliance with this policy. It shall be the duty of every Employee/ Business Associate of the Company to cooperate with and provide timely disclosure and information to any inspecting authority (either internal or external) including any relevance law enforcement authorities with regard to implementation of this policy. The Policy shall be reviewed on an annual basis.
- b. In addition to this policy all directives issued by SEBI/ Exchanges/ NSDL or any other regulatory authority shall be strictly adhered to. Role of Compliance Department & Internal Audit
- c. The Compliance Department shall be responsible to monitor compliance with this Policy. In the event of any non-compliance, the same shall be reported to the Principal Officer of the Company.
- d. The Compliance Team shall ensure to test 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.
- e. The system and procedures of the Company for prevention of Money laundering shall be reviewed and audited periodically by the Internal auditors of the Company.
