

M/s CAPSTOCKS & SECURITIES (I) PVT LTD

POLICY ON

**“KNOW YOUR CUSTOMER” STANDARDS
&
“ANTI MONEY LAUNDERING” MEASURES**

***Draft approved by the
Board of Directors
on 27.02.2015***

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1.0 The Background

The Prevention of Money laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July 2005. As per the provisions of the Act, every Stock Broker, Sub broker and any other intermediary associated with Securities Market and registered under Sec 12 of the SEBI Act, 1992 shall have to maintain a record of all the transactions, nature and value of which has been prescribed in the Rules notified under the PMLA, Act, 2002.

SEBI vide Master Circular CIR/ISD/AML/3/2010 on December 31, 2010, had consolidated all the requirements/ obligations issued with regard to AML/ CFT, till December 31, 2010 and vide Circular Number CIR/MIRSD/1/2014 dated March 12th 2014, had issued the obligations of the intermediaries registered under Section 12 of SEBI Act, 1992. The Guidelines / Circulars are in the context of the recommendations made by the Financial Action Task Force (FATF) on Anti-Money Laundering Standards. The Compliance with these standards by all capital market intermediaries registered with SEBI has therefore become imperative.

As per the recommendations of SEBI, CAPSTOCKS & SECURITIES (I) PVT LTD (CSPL), has put in place a policy framework, which incorporates salient aspects of the measures and obligations of a stock broker company under the Prevention of Money Laundering Act, 2002.

This policy document is based on the provisions of the PMLA Act, 2002, SEBI Guidelines / Circulars and policy framework recommended by CDSL and Exchange(s) Circulars, but amended at places to suit specific requirements of CSPL, within the meaning of the Act, Guidelines and Circulars.

2.0 Preamble

This Policy of CSPL aims to deal with Money Laundering and matters connected therewith by setting standards for Acceptance of Clients, Identifying the Clients, Monitoring and Reporting as per PMLA Act, 2002.

3.0 The Objective

- 3.1 International initiatives taken to combat drug trafficking, terrorism and other organized and serious crimes have concluded that financial institutions including securities market intermediaries must establish procedures of internal control aimed at preventing and impeding money laundering and terrorist financing. The said obligation on intermediaries has also been obligated under the Prevention of Money Laundering Act, 2002.
- 3.2 “Money Laundering” is the process by which persons with criminal intent or persons involved in criminal activity, attempt to hide and disguise the true origin and ownership of the proceeds of their criminal activities, thereby avoiding prosecution, conviction and confiscation of the criminal funds. The term “Money Laundering” is also used when the funds are utilized for terrorist financing, though the origin of the funds may be legitimate.
- 3.3 The objective is to have in place adequate policy, practice and procedure that promote professional standards and help to prevent CSPL from being used, intentionally or unintentionally for money laundering.
- 3.4 The procedure shall include interalia, four specific parameters, which are related to the overall “Client Due Diligence Process (CDD)”.
 - a. Customer Acceptance policy.
 - b. Procedure for identifying the clients.
 - c. Risk Classification.
 - d. Transaction Monitoring and
 - e. Reporting Suspicious Transactions (STR) to FIU IND.

4.0 Implementation of this Policy

Mr Rajendran V, Chairman & Managing Director of CSPL, will be the Principal Officer, who will be responsible for:

- Compliance of the Provisions of the PMLA and AML Guidelines
- Act as a central reference point and play an active role in identification & assessment of potentially suspicious transactions
- Ensure that CSPL discharges its legal obligation to report suspicious transactions to the concerned authorities.

5.0 Customer Due Diligence Process (CDD):

The Customer Due Diligence process includes the following:-

(a). Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party should be identified using Client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.

(b). Verification of the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (c); and

(c). Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and accounts, throughout the course of the business relationship to ensure that the transactions being conducted are consistent with CSPL's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds. CSPL may ask for yearly updation of Client Identification and other documents, taken during the Client Due Diligence (CDD) process.

6.0 Customer Acceptance Policy (CAP)

a. Where the Investor is new, account shall be opened only after ensuring that pre account opening and KYC documentation / procedures are conducted. CSPL will follow the guidelines set by SEBI/CDSL, in implementing the KYC.

b. If the investor is an existing investor, it shall be ensured that the identification of the customer is complete in every respect. The investor may be required to submit information like copy of PAN card/Address details, Annual financial Statements or may be requested to follow a specific procedure that the industry in general is following for completing KYC norms.

c. For Demat Accounts CSPL, shall conduct KYC tests at the time of accepting the customer or transaction as per CDSL/SEBI guidelines, in context to the PMLA 2002 requirements.

d. Format of the Account Opening Form (AOF) and Transaction Form may be modified appropriately to achieve this objective. No Account form shall be opened in a fictitious / benami name or on anonymous basis.

e. The Clients shall be brought under different classification i.e Low, Medium and High risk. The Medium & High Risk clients shall be put under higher degree of due diligence and regular update of Know Your Client (KYC) profile.

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

g. Any Client or transaction may be accepted only after customer acceptance procedure is completed. If customer acceptance procedure rejects a customer and customer does not respond to requests for additional information, the application of the client shall be rejected.

7.0 Customer Identification Procedure (CIP)

Identity generally means a set of attributes which together uniquely identify a natural or legal person. An individual's identity comprises of his/her name, recent photograph, signature, date of birth, Telephone No: and the residential address at which he/she can be located. In case of non-individuals, identification is established with the help of registration number, copies of incorporation documents, location, and address of head office and identity of Partners/Directors/Authorized signatories.

The KYC policy shall indicate the client identification procedure to be carried out at different stages including, establishing the Intermediary - Client relationship or when the intermediary has doubts regarding the adequacy of previously obtained client identification data. The policy shall contain necessary procedures to determine whether the existing/potential client is a PEP (Politically Exposed Person). Such procedures shall also include seeking additional information from clients, accessing publicly available information etc.

The consent of senior management shall be necessary for establishing business relationship with PEP's. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, senior management approval shall be obtained to continue the business relationship.

Other	<p>Proof of address can also be established by any document containing the photograph, address and signature, duly attested by a manager of a scheduled commercial bank (the designation seal should be affixed), notary public or gazetted officer</p> <p>Most recent photograph</p>
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The genuineness of PAN may be verified with IT website and cross verification of the PAN card copy with the original. It shall also be stamped “verified with original” as proof of verification.

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

B. HUF

Features	Documents
Proof of Identity	Account can only be opened in the name of the Karta on behalf of the HUF.
Proof of address	<p>One self certified copy of any one of the following:</p> <p>Copy of PAN Card of the HUF / Deed or declaration of HUF</p> <p>Bank Statement</p> <p>Declaration from the Karta.</p> <p>Prescribed Joint Hindu Family Letter signed by all the adult coparceners</p> <p>One most recent photograph of the Karta.</p>
Other	Proof of Identification of Karta

D. Non- Individuals:

Features	Documents
<p>Proof of Address / Identity of Corporate Bodies</p>	<p>A true copy (certified by professionally qualified Company Secretary, practicing Chartered Accountant or practicing Cost Accountant) of each of the following:</p> <ul style="list-style-type: none"> (i) Copy of Certificate of Incorporation/ registration. (ii) Copy of the MOA & AOA (iii) Copy of the PAN card and the Director Identification No. (DIN) (iv) Copy of the latest audited Annual Statements of the corporate client (v) Latest Net worth Certificate (vi) Latest Income Tax return filed. (vii) Board Resolution for appointment of the Authorized Person who will operate the account. (viii) Proof of address and identity of Authorized Person
<p>Proof of Address / Identity of Trusts, foundations, NGOs, Charitable Bodies, Clubs/ Mutual Fund Schemes and other non-individuals other than companies incorporated under Companies Act.</p>	<p>A certified true copy (certified by one of the authorized signatories) of each of the following :</p> <ul style="list-style-type: none"> (i) Certificate of registration, if registered (ii) Trust deed / Partnership Deed (iii) Pan Card of Partners / Trustees (iv) Proof of identity and address of the Authorized Person. (v) Annual statement / returns of the Partnership firm / Trustee
<p>Unincorporated Association or a Body of Individuals</p>	<p>CSPL may not deal with such entities in usual course. The KYC shall be done in accordance with the advice of compliance department, if and when such an application is received. KYC in these cases may be as near as possible to the KYC for non- individuals other than companies registered under Companies Act.</p>

7.2 Validation of Accounts

CSPL shall validate the new account opening applications with various watch lists/web sites including that of AML SEBI Debarred Entities and theUNSC (United Nations Sanction List) , RBI/ Income Tax Department, NSDL & CDSL etc.

8.0 Risk Classification

The level of Money Laundering risks that CSPL is exposed to by Investor / Client relationship depends on:

- Type of the customer and nature of vocation/business
- Type of business / service availed by the customer
- Country where the Customer is domiciled
- *Turnover / nature of transaction, manner of payment etc

Based on the above criteria, the customers may be classified into three Risk levels viz., high risk, medium risk and low risk.

For the purpose of risk categorization, individuals / entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large confirm to the known profile, shall be categorized as low risk. They are Individuals / Corporates / Firms / HNI's who do have a respectable social and financial standing and make payments and take delivery of shares, in time.

Medium risk clients are those who are intra-day clients or speculative clients, who maintain running account with CSPL.

High risk clients are those who have defaulted in the past, have suspicious background, do not have adequate financial status, etc. NRI/NRE/PIO and foreign clients, are considered as High risk Clients, especially when the payment is being made in foreign currency

CSPL shall adopt an enhanced customer due diligence process for medium and high risk customers and a simplified due diligence process for low risk customers. The basic principle enshrined in this approach is that, an enhanced client due diligence process is conducted for higher risk categories of clients. Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients.

8.1 High Risk:

The following Clients or Clients of Special Category (CSC) are classified as high risk, and shall adopt enhanced customer due diligence process.

- a. Non Resident clients
- b. High Net-worth clients
- c. Trust, Charities, NGOs and organizations receiving donations
- d. Unlisted companies
- e. Politically exposed persons (PEP): Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g. Heads of States or of Governments, senior politicians, senior government/Judicial/ Military officers, senior executives of state- owned corporations, important political party officials, etc.
- f. Companies offering foreign exchange offerings
- g. Clients in high risk countries where existence / effectiveness of money laundering controls is in suspect. Also includes Clients from countries 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.
- h. Non face to face Clients
- i. Clients with dubious reputation as per public information available etc.

8.2 Medium risk

Medium Risk, Individual and Non Individual clients are those falling under the definition of speculators, day traders and clients, trading in Futures and Options segment.

8.3 Low Risk

All customers that do not fall under High / Medium Risk are Low Risk customers.

CSPL shall conduct additional due diligence for clients categorized as Medium & High Risk Clients. For scrutiny / back ground check of the above clients, information available in the public domain shall be referred. CSPL shall scrutinize the records / documents pertaining to clients of special category (like Non Resident clients, High Net worth Clients, Trusts, Charities, NGOs, Companies having close family shareholding, Politically exposed persons of foreign origin, Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange offerings, etc.) or clients from high risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption/fraud is highly prevalent. CSPL shall review the above details on a going basis to ensure that the transactions being conducted are consistent with its knowledge of customers, business and risk profile and where necessary, the customer's source of funds.

9.0 Monitoring of Transactions

CSPL shall have in place a comprehensive transaction monitoring process from a KYC / AML, perspective. CSPL shall put in place strong transaction alerts which will provide proactive signals on suspicious transactions and possible money laundering. The following activities / transactions, to be monitored on an ongoing basis shall enable CSPL to submit periodical CTRs / STRs:

1. Monitoring clients having large deposits (in the form of monies – credit, in trading accounts and value of shares in base capital / demat accounts) kept with CSPL, where the proportion of trading turnover is inconsistent with the deposit of client. Report on monthly trading turnover of the client to be compared with the income /net worth declared and the value of the portfolio of the client available in demat account / base capital.
2. Monitoring clients whose monthly turnover is five times his / her / its annual income. Monitor transactions in illiquid stocks (B2, Z, & T2T) as a percentage of scrips traded during a period by a client.
3. Monitoring percentage of illiquid stock traded by a client as a percentage of market turnover of that scrip for NSE/BSE on a daily basis, with a consolidation on monthly basis.
4. Monitoring multiple client codes with same PAN number.
5. Monitoring substantial increase in turnover in a dormant account (i.e. account which is inactive for more than six continuous months, both trading and demat accounts) without apparent cause.

6. Monitoring instances of same address / contact number in case of multiple accounts.
7. Monitoring Top 10% clients by volume, across segment.
8. Monitoring 100% of NRI clients by volume (clients of special category).
9. Verification of amounts paid through third party cheques.
10. Verification of amounts paid through demand drafts.
11. Off – market transfers in dormant demat accounts

10.0 Ongoing Monitoring of Suspicious Transactions:

Ongoing monitoring of accounts is an essential element of an effective Anti Money Laundering framework. Such monitoring shall enable CSPL in identification and detection of apparently abnormal transactions, based on laid down parameters.

CSPL shall scrutinize the alerts received from Exchange(s) / CDSL for any suspicious transactions, in the Client Accounts. CSPL shall also monitor transactions through automated means of back office software, for any unusual size, volume or pattern of transactions. For Non – Automated monitoring, necessary alerts/reports shall be generated based on the client’s profile, nature of business/transaction and trading pattern. These reports/alerts shall be analyzed to establish suspicion or otherwise for the purpose of reporting such transactions.

The parameters laid down for monitoring transactions shall also include:

- a) Check trade log for any indication of matching internal trades
- b) Check for any relation of the client with the company / directors / promoters.
- c) ☑ Check for any previous trading pattern of the clients in that particular scrip.
- d) Scrutiny of bulk deal transactions.
- e) ☑ Select randomly, few clients and pick their few transactions and scrutinize to check whether they are of suspicious nature or not.
- f) Check for any substantial increase in turnover in a dormant account.
- g) Off market transactions in the DP account of the clients.
- h) High trading activity in the relatively illiquid scrips.
- i) Major trading activity in the Z and T to T category scrips.

11.0 Reporting to FIU IND

11.1 Cash Transaction Reporting:

The Cash Transaction Report (CTR) for each month, if any shall be submitted to FIU-IND by 15th of the succeeding month. CSPL does not accept cash for any investment nor does it pay cash towards any transaction. Therefore, instances of suspicion on the grounds of cash transaction and generation of Cash transaction Reports (CTR) are not generally expected.

11.2 For Suspicious Transactions Reporting:

CSPL shall take note of Suspicious Transactions, if any and take appropriate steps for reporting to FIU IND. The Suspicious Transaction Report (STR) shall be submitted within 7 days of arriving at a conclusion that any transaction, whether Cash or Non-Cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion.

The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND. Utmost confidentiality shall be maintained in filing of CTR and STR to FIU - IND. The reports shall be transmitted by Speed/Registered Post/Fax at the notified address. CSPL shall not put any restrictions on operations in the Accounts where an STR has been made. Further it shall also be ensured that there is no tipping off to the client, at any level.

The following list of circumstances may be treated as suspicious transactions.

- (i) Clients whose identity verification seems difficult or clients appear not to cooperate.
- (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) Transaction 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) Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;
- (x) Unusual transactions by Clients of special category (CSC's) and businesses undertaken by shell corporations, offshore banks / financial services, businesses reported to be in the nature of export-import of small items;
- (xi) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing / business activity;
- (xii) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdiction;
- (xiii) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- (xiv) Purchases made on own account transferred to a third party through off market transactions through DP Accounts;
- (xv) Suspicious off market transactions;
- (xvi) Large deals at prices away from the market.
- (xvii) Accounts used as 'pass through'. Where no transfer of ownership of securities or trading is occurring in the account and the account is being used only for funds transfers / layering purposes.
- (xviii) Trading activity in accounts of high risk clients based on their profile, business pattern and industry segment.

Whether a particular transaction is suspicious or not for the purpose of reporting shall depend on the background, details of the transactions and other facts and circumstances.

12.0 When to Report

In terms of the PMLA rules, brokers and sub-brokers are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) 6th Floor, Hotel Samarat, Chanakyapuri, New Delhi -110021 as per the schedule given below :

Report	Description	Due Date
CTR	All cash transactions of the value of more than Rs.10 Lakhs or its equivalent in foreign currency	15 th day of the succeeding month
	All series of cash transactions integrally connected to each other which have been valued below Rs.10 Lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month	15th day of the succeeding month
CCR	All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions	Not later than Seven working days from the date of occurrence of such transaction
STR	All suspicious transactions whether or not made in cash	Not later than Seven working days on being satisfied that the transaction is suspicious
NTR	Non Profit Organization Transaction Report	Not later than Seven working days on being satisfied that the transaction is suspicious

13.0 Maintenance of records of Transactions

CSPL shall put in place a system of maintaining proper record of transactions prescribed under Rule 3 of the PMLA Act, as mentioned below:

- a. all cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency.
- b. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a calendar month and the aggregate value of such transactions exceeds rupees ten lakhs.
- c. all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place.
- d. 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 the registered intermediary.

14.0 Maintenance and Preservation of Records

CSPL shall take appropriate steps for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities.

The records mentioned in Rule 3 of the Act, shall be maintained for a period of five years from the date of cessation of the transactions between the client and CSPL.

Further, records of the identity of clients shall be maintained and preserved for a period of five years from the date of cessation of the transactions between the client and CSPL.

15.0 Employee Training / Hiring / Investor Education

The Human Resource Department should have adequate screening procedure in place to ensure high standards, in hiring of new employees. Bonafides of Employees shall be checked to ensure that the employees do not have any link with terrorist or other anti social organizations. The department shall also maintain a "Know Your Employee" to have a better understanding of the Employees hired.

CSPL shall sensitize employees / intermediaries of the requirements under PMLA, on an ongoing basis. CSPL shall maintain adequate screening procedures, to ensure high standards, when hiring employees. CSPL's AML Policy shall be covered in the induction training programme given to the new recruits and other staff programmes.

The training programme shall ensure that the staff fully understands their responsibilities under the PMLA Act, from establishment of new accounts to transaction monitoring and reporting of suspicious transactions to the FIU IND. CSPL shall also educate the clients of the objectives of the AML/CFT programme through literature / pamphlets etc. This internal policy and procedure on AML Policy shall also be brought to the notice of all employees, through display in the Notice board and in the Company's intranet. This policy shall also be disseminated for the information of all concerned, by hosting in the web site of the company.

16.0 Audit / Testing of Anti Money Laundering Program

The Anti Money Laundering program shall be subject to periodic audit, specifically with regard to testing its adequacy to meet the compliance requirements. The audit/testing shall be conducted by CSPL 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 shall be placed before the senior management for making suitable modifications/improvements in the AML program.

17.0 Review of the Policy

The policy will be reviewed once in a year

Details of the Entity		
1	Registered Entity Name	M/s CAPSTOCKS & SECURITIES (I) PVT LTD
2	FIUREID	INBRO01494
3	Principal Officer	Mr Rajendran V, Chairman & Managing Director Capstocks & Securities (India) Pvt Ltd. Capstocks Towers Thakaraparambu Road, Fort- P.O. Trivandrum-695023
4	NAME OF Designated Director communication address	LEELA JAYAKUMAR Capstocks & Securities (India) Pvt Ltd. Capstocks Towers Thakaraparambu Road, Fort- P.O. Trivandrum-695023.