

**Policy**

**on**

**Money Laundering on Intermediaries**

**Registered with the SEBI**

**To be followed by:**

**Frontline Capital Services Limited  
Regd. Office: M-6, M Block Market,  
Greater Kailash-II,  
New Delhi -110048**

**Corporate Office: B-22, Sector-4  
Noida, U.P-201301**

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**PREVENTION OF MONEY LAUNDERING POLICIES**

**1. Introduction and principals**

1.1 In view of the continuing concern about the problem related to money laundering and its potential risks, Govt. of India has introduced the Prevention of Money Laundering Act, 2002.

1.2 The Policies as outlined below provides the basic principals to be followed by our company to comply with the provisions related to anti-money laundering and anti-terrorist financing in India as outlined in the Prevention of Money Laundering Act, 2002 (PMLA) and as applicable to the intermediaries registered under Section 12 of the SEBI Act and provides policies on the practical compliance of the Act.

1.3 The Policies has been framed keeping in view the specific nature of our business, organizational structure, type of customer and transaction, etc. These Policies also sets out the steps that the management and employees of our company are required to be followed the spirit of the suggested measures in Part II and the requirements as laid down in the Prevention of Money Laundering Act, 2002 and to discourage and identify any money laundering or terrorist financing activities. These Policies will be kept under review and as and when it may be necessary to issue amendments from time to time considering the Guidance for anti-money laundering measures issued by the FIU-India.

**2. Back ground**

2.1 Our company is a SEBI registered stock-broker and depository participant as an intermediary. Accordingly, the provisions of the Prevention of Money Laundering Act, 2002 to comply with are applicable to us as pursuant to the recommendations made by the financial action task force on anti-money laundering standards, SEBI had issued the Guidelines on Anti Money laundering standards vide their notification no ISD/CIR/RR/AML/1/06 Dated 18th January 2006 and vide letter

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No.ISD/CIR/RR/AML/2/06 dated 20th March 2006 had issued the obligation of the intermediaries registered under section 12 of SEBI Act, 1992. As per these SEBI guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

### **2.2 Reasons of Money Laundering**

The term 'Money Laundering' can be said to be any process or activity connected with the proceeds of crime and projecting proceeds of crime as untainted property. Offence of Money Laundering related to the proceeds of the crime derived from Scheduled Offence.

In the day to day activities in the world as a whole:

- Every year, huge amounts of funds are part of proceeds of the crime derived from Scheduled Offence. These funds are mostly in the form of cash.
- The Criminals who generate these funds need to bring them into the legitimate financial system.

### **2.3 Process or activities in which money is laundered**

Money laundering basically involves three independent steps:

- i) Placement: This refers to physical disposal of bulk cash proceeds of the crime derived from Scheduled. In this process the cash generated by the crime is gradually inserted into the financial system.
- ii) Layering: In this process, cash inserted into the financial system are routed into numerous complex transactions and multiple layers are created to conceal the origin of the funds into financial system and to conceal the audit trail.
- iii) Integration: This process refers to the re-injection of the laundered proceeds back into the economy in such a way that they re-enter the financial system as normal business funds. Banks and financial intermediaries are vulnerable from the Money Laundering point of view since criminal proceeds can enter banks in the form of large cash deposits.

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### **2.4 Maintenance of records of transactions**

Considering the reasons and process or activities in which money is laundered, all the intermediaries registered with the SEBI are supposed to put in place a system of maintaining proper record of transactions Rule 3, as mentioned below (SEBI Circular ISD/CIR/RR/AML/2/06 dated March 20, 2006):

- All cash transactions of the value of more than Rs 10 lacs or its equivalent in foreign currency;
- 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 take place within a month and the aggregate value of such transactions exceeds Rs. 10 lakhs;
- All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where forgery of valuable security has taken place;
- All suspicious transactions whether or not made in cash and by way of as mentioned in the Rules including inter-alia, credits or debits into from any non-monetary account such as demat account, security account maintained by the registered intermediary. It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' should also be considered.

### **2.5 Information to be maintained**

Intermediaries are required to maintain and preserve the following transactions in respect of transactions referred to in Rules 3 (SEBI Circular ISD/CIR/RR/AML/2/06 dated March 20, 2006):

- The nature of transaction;
- The amount of the transaction and the currency in which it was dominated;
- The date on which the transaction as conducted; and
- The parties to the transaction.

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### **3. Obligation and responsibility to establish policies and procedures**

3.1 Under PMLA, there is an obligation on intermediaries to have a system in place or identifying; monitoring and reporting suspected money laundering or terrorist financing transactions to the law enforcement authorities.

3.2 In light of the above, senior management of the company should be fully committed to establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements.

#### **3.3 The responsibility of senior management of our company includes:**

- a. To appoint Principal Officer to discharge legal obligations under the PMLA and define his responsibility;
- b. To establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements;
- c. To ensure that the content of these policies are understood by all staff members;
- d. Regularly review the policies and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness. Further in order to ensure effectiveness of policies and procedures, the person doing such a review should be different from the one who has framed such policies and procedures;
- e. Adopt customer acceptance policies and procedures which are sensitive to the risk of money laundering and terrorist financing;
- f. Undertake customer due diligence (“CDD”) measures to an extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of customer, business relationship or transaction; and
- g. Develop staff members’ awareness and vigilance to guard against money laundering and terrorist financing.

#### **3.4 Policies and procedures to combat Money Laundering cover:**

- a. Communication of group policies relating to prevention of money laundering and terrorist financing to all management and relevant staff that handle account

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information, securities transactions, money and customer records etc. whether in branches, departments or subsidiaries;

- b. Customer acceptance policy and customer due diligence measures, including requirements for proper identification;
- c. Maintenance of records;
- d. Compliance with relevant statutory and regulatory requirements;
- e. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and
- f. Role of internal audit or compliance function to ensure compliance with policies, procedures, and controls relating to prevention of money laundering and terrorist financing, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of frontline staff of their responsibilities in this regard.

### **4. Implementation of Policy**

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

4.2 The Board of Director will appoint a director or senior employee to act as the Principal Officer. The Principal Officer will be responsible for:

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

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

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

### **4.4.1 Policy for acceptance of clients:**

#### **A. For clients other than individuals or trusts:**

Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, we identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information:

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

Explanation: Controlling ownership interest means ownership of/entitlement to:

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

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

b. In cases where there exists doubt under clause 4 (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

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

c. Where no natural person is identified under clauses 4 (a) or 4 (b) above, the identity of the relevant natural person who holds the position of senior managing official.

### **B. For client which is a trust:**

5. Where the client is a trust, We 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.

6. Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.

### **C. Applicability for foreign investors:**

7. In case of foreign investors' viz., Foreign Institutional Investors, Sub Accounts and Qualified Foreign Investors, may be guided by the clarifications issued vide SEBI circular

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CIR/MIRSD/11/2012 dated September 5, 2012, for the purpose of identification of beneficial ownership of the client.

**4.4.2** FCSL has developed customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. By establishing such policies and procedures, they will be in a better position to apply customer due diligence on a risk sensitive basis depending on the type of customer business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients:

- a) No account is opened in a fictitious / benami name or on an anonymous basis.
- b) Client's account should be opened only on basis of mandatory documentation requirement and other information to be collected in respect of different classes of clients depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002, guidelines issued by RBI and SEBI from time to time.
- c) Accept client whom we are able to meet personally either the client should visit the office/branch or concerned official may visit the client at the residence / office address to get the necessary document filled in and signed. As far as possible, ensure that the new client is introduced existing client, employees and any other reliable source.
- d) Obtain complete information from the client. It should be ensured that the initial forms taken by the clients are filled in completely. All photocopies submitted by the Clients are checked against original documents without any exception. Ensure that the 'KNOW YOUR CUSTOMER GUIDELINES' are followed without any exception. All Supporting documents as specified by Securities and Exchange Board of India(SEBI) and Exchanges are obtained and verified
- e) Client's account should be opened only on receipt of mandatory information along with authentic supporting documents as per the regulatory guidelines.
- f) Do not open the accounts where, the client refuses to provide information/ documents and we should have sufficient reason to reject the client towards this reluctance.

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- g) Checks whether the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.
- h) We should be careful while accepting clients of special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed persons (PEP), persons of foreign origin, companies having closed share holding / beneficial ownership, companies offering foreign exchange offerings, non face to face clients, clients with dubious background, Current / Former Head of State, Current or Former Senior High profile politician connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence), clients in high-risk countries, 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. Scrutinize minutely the records / documents pertaining to clients belonging to aforesaid category.

### **4.5 Procedure for Client identification:**

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

- The 'Know your Client' (KYC) policy as prescribed by the regulatory authorities such as Exchanges, SEBI, RBI, etc should be complied with. The SEBI has prescribed the minimum requirements relating to KYC for certain class of the registered intermediaries from time to time.
- The client should be identified by using reliable sources including documents / information. Adequate information should be obtained to establish satisfactorily identity of each new client and the purpose of the intended nature of the relationship.

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- The information should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the Guidelines. Each original document should be seen prior to acceptance of a copy thereof.
- Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority and should not be accepted as client.
- Periodic update of financial and other information along with acceptable documentary evidence should be taken from the clients.

### **4.5.1 Documents which can be relied upon:**

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

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

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

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

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

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5.2 In order to achieve this objective, all clients should be classified in the following category:

**Category A - Low Risk**

**Category B - Medium Risk**

**Category C - High risk**

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

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

**5.2.3. Category C (High Risk)**- Clients are those who have defaulted in the past, have suspicious background, do not have any financial status, etc. Clients who trade intra-day and deal at more than one brokerage house and have many Bank Accounts to our knowledge. Such clients also have cheque bouncing history.

5.3 We have to be careful while monitoring the transactions of B category clients and extremely careful in case of C category clients.

5.4 Apart from this we need to exercise extra caution while monitoring the transactions of clients of special category as mentioned herein after.

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5.5 Any change in the risk profile of the client / mandate holder, has to be ascertained on regular basis by employee handling the client and reported to the higher management authority.

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

Such clients include the following-

- 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; and
- j. Clients with dubious reputation as per public information available etc. The above mentioned list is only illustrative and the intermediary should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

**5.7. Risk Assessment** . To carry out risk assessment to identify, assess and take effective measures to mitigate any money laundering and terrorist financing risk with respect to clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country

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specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions (these can be accessed at [http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.html](http://www.un.org/sc/committees/1267/aq_sanctions_list.html) and <http://www.un.org/sc/committees/1988/list.html>)

**5.8 Reason for Non-acceptance** . The Company must refuse to open an account where the prospective customer does not co-operate with the Company in obtaining these details or where the Company is not sure about the reliability of the data furnished by the prospective customer.

**5.9 Notice to Client.** If the Company is unable to apply appropriate KYC measures due to non-furnishing of information and/or non-cooperation by the client, the Company may consider closing the account or terminating the business relationship after issuing due notice to the customer explaining the reasons for taking such a decision. Such decisions need to be taken at a reasonably senior level after consulting the Principal Officer.

## **6. Suspicious Transactions**

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

### **6.1 Reasons for Suspicious:**

Identity of client

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

Suspicious Background

- Suspicious background or links with criminals

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### Multiple Accounts

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

### Activity in Accounts

- Unusual activity compared to past transactions
- Use of different accounts by client alternatively
- Sudden activity in dormant accounts
- Activity inconsistent with what would be expected from declared

### Nature of Transactions

- Unusual or unjustified complexity
- No economic rationale or bonafied purpose
- Source of funds is doubtful
- Purchases made on own account transferred to a third party through an off market transactions through DP account
- Transactions reflect likely market manipulations
- Suspicious off market transactions

### Value of Transactions

- Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- Large sums being transferred from overseas for making payments
- Inconsistent with the clients apparent financial standing
- Inconsistent in the payment pattern by client

## **6.2. What to Report**

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

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### **6.3 Where to Report**

In terms of the PMLA Rules, we are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligent Unit-India (FIU-IND) at the following address:

**Director, FIU-IND,  
Financial Intelligent Unit-India,  
6<sup>th</sup> Floor, Hotel Samrat, Chankyapuri  
New Delhi 110021**

## **7. Training of the management and staff and their recruitment**

7.1 Basic Understanding of the internal policies and procedures related to the Prevention of Money Laundering Act, 2002 by the management and staff and their training:

- (i) The senior management of the company will provide the written copy of prevention of money laundering and terrorist financing policies to be followed to all the existing management and relevant staff that handle account information, securities transactions, money and customer records etc. whether in branches, departments or subsidiaries.
- (ii) In case of new recruitment, the person responsible to such recruitment will provide the written copy of prevention of money laundering and terrorist financing policies to be followed to such new employee.
- (iii) The such management and relevant staff including new employee will be responsible to understand clearly the Policies and will follow the spirit of the suggested measures in Part II and the requirements as laid down in the Prevention of Money Laundering Act, 2002 and to discourage and identify any money laundering or terrorist financing activities.

### **7.2 Training of the management and staff**

- (i) Training on Anti Money Laundering must be provided immediately introduction of these policies to every existing management and staff of the company and to every new recruited staff within one month after recruitment of such staff with follow-up training for every management and staff of the company every 6

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months. (This training must cover the management and staff with customer contact or authorized to take policy decisions).

(ii) Any training on Anti Money Laundering must at least cover knowledge about general requirement regarding:

- Meaning of anti money laundering requirements and possible risk or not adhering to the requirements;
- Requirement for adequate client identification and documentation procedures;
- Recognition of suspicious transaction or suspicious activities of the clients;
- Ways and means of money laundering with context to day to day activities of the company; and
- Reporting of the suspicious transaction or activities of the client.

### **7.3 Recruitment of staff**

The person responsible for recruitment should have adequate screening procedures in place to ensure high standards when hiring employees. They should identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employee staking up such key positions are suitable and competent to perform their duties.

**8. Principal Officer Designation and Duties-** The Company has designated Mr. Lalit Pant as the Principal Officer and Mr. Anirudh Kumar Jain , Director of the Company as its Designated Director for its Anti-Money Laundering Program, both of whom shall be responsible for the Company's AML program. The duties of the Principal Officer will include monitoring the Company's compliance with AML obligations and overseeing communication and training for employees. The Principal Officer will also ensure that proper AML records are kept. When warranted, the Principal Officer will ensure filing of necessary reports with the Financial Intelligence Unit (FIU – IND). The Company has provided the FIU with contact information for the Principal Officer, including name, address, e-mail address, telephone number and fax number. The Company will promptly notify FIU of any change to this information.

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

**Principal Officer- Lalit Pant**

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