



**CANARA BANK SECURITIES LIMITED**  
**(A WHOLLY OWNED SUBSIDIARY OF CANARA BANK)**

# Anti Money Laundering Policy & Procedure

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## 1. THE BACKGROUND AND DEVELOPMENTS IN INDIA

The Indian Parliament passed the Prevention of Money Laundering Act (PMLA) in 2002 to implement the Political Declaration adopted by the special session of the United Nations General Assembly held during June 8-10, 1998 and the Global Programme of Action annexed to Resolution S-17/2 adopted by the United Nations General Assembly on February 23, 1990. The provisions of this Act are effective from July 1, 2005. The PMLA addresses a range of issues including the definition of and punishment for the offence of Money Laundering (ML) and Terrorist Financing (TF), attachment and confiscation of property tainted by ML and the obligations of banking companies, financial institutions and intermediaries in connection with ML and TF issues.

The Government of India had notified on July 1, 2005, the rules under Prevention of Money Laundering Act, 2002 (PMLA) relating to “Maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing information and verification and maintenance of records of the identity of the clients of the Banking Companies, Financial Institutions and Intermediaries” (hereinafter referred to as “PMLR”). In terms of the requirement of the PMLR, procedures for furnishing of information (relating to specified transactions) to the Financial Intelligence Unit, India (FIU-IND) have been notified by Reserve Bank of India on February 15, 2006.

SEBI has issued guidelines on Know Your Customer (KYC) standards and AML (Anti-Money Laundering) Standards vide their circular dated January 18, 2006. The Guidelines issued in the circular are in the context of the recommendations made by the Financial Action Task Force (FATF) on anti-money laundering standards. Compliance with these standards by all capital market intermediaries registered with SEBI has become imperative. These Guidelines lay down the minimum requirements / disclosures to be made in respect of clients. SEBI vide its circular no. ISD/CIR/RR/AML/2/06 dated March 20, 2006 has further issued guidelines with respect to

Maintenance and Preservation of records of transactions, information to be maintained, reporting to Financial Intelligence Unit – India.

National Stock Exchange of India Limited (NSE) Vide its circular NSE/INVG/2007/93 dated August 31, 2007 had reiterated upon trading members to develop and implement a written anti money laundering program designed to achieve and monitor the compliance with the PMLA requirements. In this regard, NSE had received representations from trading members for providing a framework for implementation of Anti Money Laundering Policies. NSE in consultation with SEBI and The Stock Exchange Mumbai (BSE), has put together an indicative framework for preparation of Anti Money Laundering Policies by trading members.

This policy document is based on the SEBI, PMLA Guidelines and the indicative framework suggested by NSE and BSE.

## **2. PREAMBLE**

Through the following Policy Guidelines, the Company stands committed -

- a) To establish a framework for adopting appropriate AML procedures and controls in the operations/business processes of the Company.
- b) To ensure compliance with the laws and regulations in force from time to time.
- c) To accept only those clients whose identity is established by conducting due diligence appropriate to the risk profile of the client.
- d) To prevent the company's business channels/products/services from being used as a channel for ML.
- e) To assist law enforcement agencies in their effort to investigate and track money launderers.
- f) To report to Financial Intelligence Unit – India, or any other agency designated by Securities and Exchange Board of India or Government of India, the details of transactions of all or selected clients if and when requested or at regular frequency as may be suggested by such agencies,

- g) To record and preserve audit trail for the transactions conducted by customers to facilitate investigation.
- h) To protect the Company's reputation.
- i) To lay down AML compliance norms for the employees of the Company.

All directives/guidelines issued by Regulatory Bodies from time to time shall form part of the policy till its next revision and shall be adhered to.

A glossary of terms relevant to the AML Policy is given in **Annexure I**.

### **3. The Objective**

The objective is to have in place adequate policy, practice and procedure that promote professional standards and help prevent the Company from being used, intentionally or unintentionally for money laundering. KYC Standards and AML Measures would enable the Company to know/ understand its customers, the beneficial owners in case of non-individual entities, the principals behind customers who are acting as agents and their financial dealings better which in turn will help the Company to manage its risks prudently.

### **4. Definition of Money Laundering (ML)**

ML is the processes by which criminals attempt to disguise the true origin of the proceeds of their criminal activities by the use of the financial system so that after a series of transactions, the money, its ownership and the income earned from it appear to be legitimate. According to Financial Action Task Force (FATF), ML is the processing of criminal proceeds in order to disguise their illegal origin.

This process is often achieved by converting the illegally obtained proceeds from their original form, usually cash, into other forms such as deposits or securities and by transferring them from one financial institution to another, using the account of apparently different persons or businesses.

**Section 3 of PMLA, describes the offence of ML as under:**

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

**5. Money Laundering Cycle**

The process of ML, regardless of its degree of complexity, is accomplished in three stages, namely the placement stage, layering stage and integration stage.

**5.1 Placement Stage**

This involves the physical movement of the cash proceeds. For most criminal transactions, cash is the most common medium of exchange and criminals who accumulate large volumes of cash are the most vulnerable to detection and seizure. As a result, money launderers will attempt, through placement, to channel the funds into a bank.

**5.2 Layering Stage**

After the funds enter a bank, the money launderer will further separate the illicit proceeds from their illegal source through a process of layering. Layering occurs by conducting multiple, complex, financial transactions that make it difficult to link the money to an illegal activity. Layering disguises or eliminates the audit trail.

**5.3 Integration Stage**

During this process the money launderer will integrate the illicit funds into the economy by providing what appears to be a legitimate explanation for his or her illicit financial wealth. For example, integration of these proceeds might include the purchase of real estate, businesses, securities, automobiles or gems & jewellery. Integration moves the funds back into the economy with the appearance of being normal business earnings. It would become extremely difficult at this point for a bank to distinguish between illicit funds and legitimate funds.

## 6. Money Laundering Risks

The Company is aware that it is exposed to several risks if an appropriate AML framework is not established:

- Reputation Risk- Risk of loss due to severe impact on the Company's reputation.
- Compliance Risk- Risk of loss due to failure of compliance with key Regulations governing the Company's operations.
- Operations Risk- Risk issue a statement of policies and procedures and implement, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements.
- Legal Risk-Risk of loss due to any of the above risk or combination thereof resulting into the failure to comply with Law and having a negative legal impact on the company. The specific types of negative legal impacts could arise by way of fines, confiscation of illegal proceeds, criminal liability etc.
- Financial Risk- Risk of loss due to any of the above risks or combination thereof resulting into the negative financial impact on the Company.

## 7. AML Standards and the Approach:

7.1 The approach towards KYC Standards is based on risk perception and money laundering threats that may be posed by different types of customers. The Company shall be guided by the KYC standards prescribed by SEBI and PMLA for Stock Brokers and financial intermediaries.

7.2. KYC Standards & AML measures involve a customer acceptance policy and customer identification programme that involves enhanced due diligence for higher risk accounts, and includes account monitoring for suspicious activities. These standards constitute an essential part of risk management by providing the basis for identifying and controlling risk exposures, which the Company takes to protect itself and its genuine customers from the risks arising out of suspicious transactions/ risky customers.

### 7.3 The KYC Standards centre around the following four key elements:

- (i) Risk classification
- (ii) Customer Acceptance Policy and identification procedures, and
- (iii) On-going Monitoring Processes
- (iv) Reporting.

### 7.4 Other AML Measures:

- (i) Customer education and awareness,
- (ii) Channel partner education and awareness (Branches, Sub-Brokers, Authorised Persons etc.)
- (iii) Staff education and awareness

## 8. Risk Classification:

Risk-based approach in implementing AML framework

In order to ensure efficient implementation of the AML framework, the Company has established a risk-based process on the basis of which it has evolved detailed AML procedures specific to its activity.

The level of Money Laundering (ML) risks that the Company is exposed to by an investor relationship, depends on:

- Type of the customer and nature of business
- Type of product / service availed by the customer
- Country where the Customer is domiciled.

Based on the above criteria, the customers shall be classified into **three** Money laundering Risk levels viz., High Risk, Medium Risk and Low Risk.

## 8.1 High Risk Customers:

The illustrative list of 'Clients of Special Category', falling under the category of 'High Risk Customers' is as follows:

- a. Non-resident Indian clients
- b. Trusts, charities, NGOs and Organizations receiving donations
- c. Companies having close family shareholdings or beneficial ownership;
- d. Politically exposed persons (PEPs) - PEPs 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. The additional Due Diligence applicable to PEP (Annexure II) shall also be applied to the accounts of the family members or close relatives/associates of PEPs;
- e. Companies offering foreign exchange offerings;
- f. Clients in high risk countries (where existence/effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, where there is unusual banking secrecy. 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 centres, tax havens, countries where fraud is highly prevalent, countries active in narcotics production, and those listed in Non-Cooperative Countries and Territories (NCCT) and Countries with UN Sanctions. An indicative list of internationally accepted high risk jurisdictions are listed as Annexure IV;
- g. Non face to face clients – Clients which are not physically met or seen in person by the Company or by its authorized affiliates;
- h. Clients with dubious reputations as per public information available.

## **8.2 MEDIUM RISK CUSTOMERS:**

Customers that are likely to pose a higher than average risk to the Company should be categorized as medium risk.

Medium Risk Category clients - High Net worth Individuals\*

For this category, higher due diligence is required which includes customer's background, nature and location of activity, country of origin, source of funds and his/her client profile, etc. besides proper introduction and identification.

\*Parameters for defining High Net worth Individuals:

Customers with any of the following:

- I) Average Turnover of above Rs. 100.00 lakh per day in Trading account
- II) Business contribution/opinion makers /VIPs such as head of village/Town/City, Top Executives of Companies etc.

## **8.3 LOW RISK CUSTOMERS:**

Individuals (other than High Network) and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorised as Low risk. Normally all clients who do not come under High Risk and Medium Risk are categorized as Low Risk customers.

Further, low risk provisions should not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.\*\*

(inserted vide Board Note No.40/2010-11 dt 13.12.2010)\*\*

## **8.4 CUSTOMER RISK CATEGORISATION:**

KYC department shall review the customer risk categorization every six months i.e. as on 15<sup>th</sup> of May and November every year based on the report generated from the software.

### **8.5 PERIODIC REVIEW OF KYC PROFILE:**

Periodic review of KYC profile of the customers shall be undertaken as below:

High Risk – once in two years

Medium Risk – once in eight years

Low Risk – once in ten years

Apart from the above, KYC profile review of customers shall be also undertaken by KYC department immediately on change of risk category of the customer from Low to Medium or High or from Medium to High but not vice versa.

### **8.6 Risk Assessment**

i. Company shall carry out risk assessment of the clients by undertaking the client Due Diligence process to identify, assess and take effective measures to mitigate its 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 specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions (these can be accessed at [http://www.un.org/sc/committees/1267/aq\\_sanctions\\_list.shtml](http://www.un.org/sc/committees/1267/aq_sanctions_list.shtml) and <http://www.un.org/sc/committees/1988/list.shtml>).

ii. The risk assessment carried out shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to

be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self regulating bodies, as and when required.

The Stock Exchanges and registered intermediary shall identify and assess the ML/TF risks that may arise in relation to the development of new products and new business practices, including new delivery mechanisms, and the use of new or developing technologies for both new and existing products. The Stock Exchanges and registered intermediaries shall ensure:

- a. To undertake the ML/TF risk assessments prior to the launch or use of such products, practices, services, technologies and
- b. Adoption of the risk based approach to manage and mitigate the risks.

## **9. Know Your Customer (KYC)**

The Company shall be aware that availability of sufficient customer information underpins all other AML procedures and should be seen as a critical element in the effective management of ML risks.

Keeping in view the specific requirements of the guidelines of PMLA, SEBI, and the Stock Exchanges, the Company shall evolve a “Customer Identification Procedure” (CIP) as outlined in Annexure II to this document, laying down the criteria for the acceptance of Customers. The CIP shall form an integral part of the AML Policy.

The KYC procedures shall be based on the following principles in addition to the various aspects outlined in the CIP:

- Customer identification and verification procedures (basic/ enhanced due diligence as highlighted in the CIP) shall be conducted by the Company at different stages i.e. while establishing a broking relationship, carrying out a broking transaction or when the intermediary has doubt about the authenticity/veracity or the adequacy of the previously obtained customer identification data.

- The Company shall ensure that a business relationship is commenced only after establishing and verifying the identity of the customer and understanding the nature of the business of the customer.
- The risk based KYC procedures adopted by the Company shall be applicable to all the new customer relationships.
- Any further KYC procedures, as and when brought in force by the regulators shall become applicable to existing customers only if the risk profile of the customer or customer segment changes to a higher risk category or based on materiality or pursuant to any applicable regulatory guidelines or when there is an unusual pattern in the operation of account. This shall be done by way of enhanced due diligence.

#### **10. Monitoring/Reporting of Suspicious Transactions (MSTR)**

Ongoing monitoring of accounts is an essential element of an effective AML framework. A Suspicious Transaction is one that is inconsistent with a customer's known, legitimate activities or with the normal business for that type of account. A satisfactory KYC procedure provides the foundation for recognising unusual or suspicious transactions. Knowledge of the customer's normal or expected activities would enable the Company to recognise when a transaction or series of transactions are abnormal. Accounts categorized as high risk accounts shall be subject to intensified monitoring. Guidance/training shall be imparted to staff to enable them to recognise potentially suspicious transactions. However considering the magnitude of the transactions being handled, it would be necessary to develop appropriate software systems to identify and report suspicious transactions. The assessment of suspicious transaction shall be based on a reasonable evaluation of relevant factors, including having information on the client's business, financial history, background, behavior and threshold limits for transactions as stipulated by applicable regulations/Company's internal guidelines.

Keeping in view the specific requirements of the guidelines of PMLA, SEBI, NSE & BSE, the Company shall evolve a "Transaction monitoring procedures" as outlined in

Annexure III to this document laying down the criteria for the monitoring of customer transactions.

The Company shall:

- a) Ensure that:
  - Transactions are monitored to identify unusual behaviour
  - Upon such identification, conduct enhanced due diligence
  - Based on the results of such enhanced due diligence, report any suspicious transaction which has been identified.
- b) Establish Management Information Systems (MIS) to identify critical areas and issues which need to be addressed to prevent ML and to provide required information relating to suspicious transactions to the top management and regulatory authorities at pre-determined intervals.
- c) To have proper records, which would ensure that documents as required are available within reasonable time frame. The Company shall develop parameters for transaction monitoring and suspicious behaviour as stipulated by applicable regulations of PMLA, SEBI or any other regulations as applicable from time to time which are as outlined in **Annexure III**.

### **11. Money Laundering Reporting Officer (MLRO).**

The Company shall appoint General Manager (Administration), as the “**Money Laundering reporting officer**” (MLRO). The MLRO shall also act as the “Principal Officer” designated for the purpose of Prevention of Money Laundering Act.

*The Principal Officer/Money Laundering Control Officer and other appropriate compliance, risk management and related staff members shall have timely access to customer identification data and other CDD (Client Due Diligence) information, transaction reports and other relevant information.*

*The Principal Officer shall have access to and be able to report to Senior Management above his/her next reporting level of the Board of Directors. (inserted vide Board Note No.42/2009-10 dt 2.12.2009)*

The functions of the MLRO shall include:

- Liaising with the regulatory/ enforcement authorities on AML matters. MLRO shall submit monthly reports to the Managing Director including the adequacy of the systems and controls for managing ML risks and for recommending any changes or improvements, as necessary.
- Review and vetting of all products/services offered by the Company to ensure compliance with AML policies and procedures.
- Ensure that AML controls are put in place before any new product / service is launched. The controls shall include the ML risk rating of product/ service, checklist on ML indicators, definition of suspicious behaviour and compliance framework and systems for monitoring and mitigating the ML risks.
- Review all reports required to be submitted to regulatory/law enforcement authorities pertaining to Prevention of Money Laundering Act and any suspicious transactions identified to be reported.
- Reporting to the Financial Intelligence Unit (FIU-IND)
  - Suspicious Transaction Report. Detailed procedures on STR filing are outlined in **Annexure V**.
  - Any other report as required by the PMLA, SEBI or regulators on Anti Money Laundering issued from time to time (Currently none).
- Monitoring of compliance to the procedures outlined in this policy and exception reports generated based on the procedures for identifying suspicious activity listed in this policy.

## **Appointment of a Designated Director**

- In addition to the existing requirement of designation of a Principal Officer, Company shall also designate a person as a 'Designated Director'. In terms of Rule 2 (ba) of the PML Rules, the definition of a Designated Director reads as under:  
*“Designated Director means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes —*  
*(i) the Managing Director or a Whole-time Director duly authorized by the Board of Directors if the reporting entity is a company,*  
*(ii) the managing partner if the reporting entity is a partnership firm,*  
*(iii) the proprietor if the reporting entity is a proprietorship concern,*  
*(iv) the managing trustee if the reporting entity is a trust,*  
*(v) a person or individual, as the case may be, who controls and manages the affairs of the reporting entity if the reporting entity is an unincorporated association or a body of individuals, and*  
*(vi) such other person or class of persons as may be notified by the Government if the reporting entity does not fall in any of the categories above.”*
- In terms of Section 13 (2) of the PML Act (as amended by the Prevention of Money-laundering (Amendment) Act, 2012), the Director, FIU-IND can take appropriate action, including levying monetary penalty, on the Designated Director for failure of the intermediary to comply with any of its ML/CFT obligations.
- Company shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, FIU-IND.

## **12.Role of employees**

The Human Resource Policy of the Company shall include the due diligence procedures from an AML perspective that need to be carried out before employing any personnel including temporary or outsourced manpower/ service providers.

The role of employees in implementing any AML framework being critical, employees would be expected to carry out the stipulated procedures efficiently. The employees shall maintain strict confidentiality in regard to KYC, Suspicious Transaction report (STR) and other AML procedures.

If any activity is outsourced to any agency/individual, it shall be ensured that they would adhere to the guidelines outlined in this Policy.

### **13. Training**

The Company shall provide training to its staff on the requirements laid down in this policy. The training shall be provided by the Money Laundering Reporting Officer (MLRO) of the Company or his delegated authority, based on the guidelines issued in this policy.

The AML training programmes shall address the requirements relating to the following:

- AML Policy guidelines, CIP requirements.
- Possible risks of not adhering to the AML requirements.
- Requirements for adequate KYC procedures.
- Methods for recognition of suspicious transactions or suspicious behaviour of a client.

Training must relate to employees' daily work and comprise examples from business including continuous training needs. The Company shall maintain a record of the training provided to its staff.

### **14. Investors Education:**

For implementation of AML/CFT measures, Company need to demand certain information from investors which may be of personal nature or has hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and

purpose of collecting such information. There is, therefore, a need for the Company to sensitize clients about these requirements as the ones emanating from AML and CFT framework. Company shall prepare specific literature/ pamphlets etc. so as to educate the clients of the objectives of the AML/CFT programme

## **15.MIS & Reporting**

### **a) Record Keeping**

The Company shall maintain appropriate documentation on their customer relationships and transactions to enable reconstruction of any transaction.

15.a.1 Records mentioned in Rule 3 of PML Rules shall be maintained and preserved for a period of five years from the date of transactions between the client and the Company.

15.a.2 Records of the identity of clients shall be maintained and preserved for a period of five years from the date of cessation of transactions between the client and Company i.e. the date of termination of an account or business relationship between the client and Company

15.a.3 The following document retention terms shall be observed:

(i) All necessary records on transactions, both domestic and international, shall be maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.

(ii) Records on client identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence shall also be kept for the same period.

15.a.4 In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, Company shall retain the same until it is confirmed that the case has been closed.

15.a.5 Company shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-

IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and the Company.

**b) Exception Procedures**

All the exceptions to AML policy and procedures shall be recorded and reported to the MLRO immediately who will report the same to the Managing Director. The Managing Director shall direct on adherence to appropriate exception reporting depending on the nature of the exception. Significant exceptions shall be reported to the Board on a quarterly basis.

**c) Suspicious transaction report:**

A suspicious transaction report shall be filed with FIU-IND within seven days from the date of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of integrally connected transactions of suspicious nature. The detailed procedure and the format of filing the suspicious transaction report (prescribed by FIU-IND) is mentioned as **Annexure 5**.

**d) Confidentiality of Suspicious Transaction Reports:**

All Suspicious Transaction reports filed by the Company shall be treated as confidential and the details should not be divulged.

**16. Internal Controls**

The AML Policy encompasses the following controls:

- All customers account classified as high risk shall be required to have prior approval of the MLRO.

- All customers classified as Politically Exposed Persons (PEPs), shall require prior approval of the Business head, MLRO and the Managing Director.
- The Company shall have a four eye verification procedure for customer account opening, whereby the documents and the KYC procedures shall be checked by a maker and a checker. A person who has acted as a maker cannot act as the checker for the same case.

### **17.Audit/Monitoring**

The scope of internal audit of the Company shall include testing of compliance with the AML Policy and KYC/AML procedures. The audit report, including a summary of deficiencies and actions taken must be documented and submitted to the Audit Committee. The audit shall be conducted by a qualified independent internal auditor. The report of such an audit shall be placed before the Managing Director for making suitable modifications/improvements in the AML program.

**All guidelines/circulars issued by Exchanges/SEBI shall form part of the policy automatically till the next revision of the policy.**

## Annexure I

### GLOSSARY OF TERMS

#### **Intermediary**

As per section 2 of the PMLA 2002 "intermediary" means 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 Securities and Exchange Board of India Act, 1992;

#### **Customer**

The term 'Customer' would refer to any person or entity whether a natural person, juristic entity, a firm, a trust, an unincorporated association of persons, acting for itself or in any fiduciary capacity, who (i) for itself or on behalf of another, maintains an account or (ii) has a trading relationship with CBSL for availing any of the products or services of CBSL or (iii) is a beneficiary of the transactions conducted by Professional Intermediaries [Professional Intermediaries include Stockbrokers, Chartered Accountants, Solicitors etc. as permitted under law or customary practices] or (iv) is connected with a securities transaction which can pose significant reputational or other risks to the intermediary.

#### **Account**

"Account" is defined generally as any formal business relationship established to effect securities transactions.

#### **Proceeds of Crime**

The term 'proceeds of crime' shall mean any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a offence covered by PMLA or the value of any such property.

## **Records**

The term 'Records' shall include the records maintained in the form of books or stored in a disk, floppy/micro film etc. and any other electronic storage device or such other form as may be prescribed.

## **Offence of Money Laundering**

The term 'Offence of Money Laundering' shall have the meaning ascribed to the term under PMLA which is: "Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of Money Laundering".

### **Transaction** – Rule 2(1)(h) of the PMLA Rules

Transaction includes deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means.

### **Suspicious Transaction** – Rule 2(1)(g) of the PMLA Rules

Suspicious transaction is a 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 the proceeds of crime;
- (b) appears to be made in circumstances of unusual or unjustified complexity; or
- (c) appears to have no economic rationale or bonafide purpose;

Based on the above, it may be observed that suspicious transactions or activities are activities where the economic background of the customer or any transacting party and/or the purpose of any transaction or business relationship in its form or amount appears unusual or suspicious in relation to the customer, or the relevant products/services or the concerned location of the institution, or if the economic purpose or legality of the transaction is not immediately clear. The parameters to establish suspicious transactions such as:

1. Account activities not consistent with the customer's business or normal transaction profile of the customer.
2. Transactions which attempts to avoid reporting/record-keeping requirements.
3. Unusual activities.
4. Transaction or account activities pertaining to customer who provides insufficient or suspicious information or is reluctant to provide requisite information.
5. Suspicious fund transfer activities.

## **FATF**

The Financial Action Task Force on Money Laundering (FATF) is an inter-governmental body whose purpose is the development and promotion of policies to combat ML.

## **Non-Cooperative Countries and Territories (NCCT)**

As defined by the Financial Action Task Force (FATF) as countries with no or insufficient Anti-Money Laundering measures. The list of NCCT as of October 13, 2006 there are no Non cooperative countries and territories.

**PMLA:** Prevention of Money Laundering Act, 2002

**FIU – IND:** Financial Intelligence Unit- India

**STR:** Suspicious Transaction report

**Officially valid document:** means passport, driving licence, PAN card, the Voter’s Identity Card issued by the Election Commission of India, Aadhar Card or any other document as may be required by the banking company, or financial institution or intermediary.

## Annexure II

### CUSTOMER ACCEPTANCE PROCEDURES

The following Customer identification procedures as prescribed by SEBI and by the Prevention of Money Laundering Act, 2002 shall be applied in identifying the customer by the Company:

<b>All Client Types</b>	<p><b><u>SEBI Client Agreement pack:</u></b></p> <p>Where the Company is providing services to its clients in its capacity as a securities broker, it shall obtain the following from the client for opening an account.</p> <ul style="list-style-type: none"> <li>• Client agreement pack (including, inter alia, Client Registration Form, Member Client Agreement, Tripartite agreement among broker, sub-broker and client (in case Sub-Broker is engaged), the Uniform Risk disclosure Documents (subject to <b>Note 1</b> below) and the Broker Sub-Broker agreement (if applicable).</li> <li>• Where the Client Registration Form is obtained for a <b>non-Individual</b> client, the following documents are also required (originals must be sighted):             <ul style="list-style-type: none"> <li>- copies of the balance sheet for the last 2 financial years</li> <li>- copy of the annual balance sheet to be submitted every year on an ongoing basis</li> <li>- copy of latest shareholding pattern including list of all persons holding more than 5% in the share</li> </ul> </li> </ul>
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	<p>capital of the company, duly certified by the company secretary / whole-time director / managing director</p> <ul style="list-style-type: none"><li>- copy of the updated shareholding pattern to be submitted every year on an ongoing basis</li><li>- copy of the Resolution of board of directors' approving participation in equity / derivatives / debt trading and naming authorised persons for dealing in securities</li><li>- photographs of partners / whole time directors, individual promoters holding 5% or more, either directly or indirectly, in the shareholding of the company and of the persons authorized to deal in securities.</li><li>- Copy of a cancelled Cheque leaf / pass book / bank statement containing name of the constituent should be submitted.</li></ul> <ul style="list-style-type: none"><li>• Where the Client Registration Form is obtained for an <b>Individual/ Sole proprietorship</b> client, the following documents should also be obtained. (originals to be sighted):<ul style="list-style-type: none"><li>- <u>Proof of identity</u> : any one of the following which should contain photograph of the individual:<ul style="list-style-type: none"><li>✓ MAPIN UID Card,</li><li>✓ PAN Card.,</li><li>✓ Passport,</li><li>✓ Voter ID card,</li><li>✓ Driving license,</li><li>✓ Director's identification card with photograph)</li><li>✓ Aadhar Card</li></ul></li></ul></li></ul>
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- Proof of address: any one of the following
  - ✓ Passport
  - ✓ Voter ID Card,
  - ✓ Driving License,
  - ✓ Latest Bank Passbook, bank account statement,
  - ✓ Rent Agreement,
  - ✓ Ration Card,
  - ✓ Telephone Bill,
  - ✓ Electricity Bill,
  - ✓ Aadhar Card
  - ✓ Any other documents issued by the government or a local authority with the approval of the MLRO.
- Copy of a cancelled Cheque leaf / pass book / bank statement containing name of the constituent should be submitted
- Recent photograph

**Note 1:** The requirements of obtaining: (i) the Client Registration Form (and the document requirements contained in the Client Registration Form); (ii) Member-Client agreement; and (iii) the Uniform Risk Disclosure Document may be waived for SEBI registered Foreign Institutional Investors, Mutual Funds, Venture Capital Funds, and Foreign Venture Capital Investors, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with the Insurance Regulatory Development Authority (IRDA) and Public Financial Institutions as defined under section 4A of the Companies Act, 1956 of India.

<p><b>For All Clients Conducting Transactions In The Cash Market And Exchange Traded Futures &amp; Options</b></p>	<p>For all clients conducting transactions in the cash market, the following must be additionally collected / performed (subject to Note 2 below):</p> <ul style="list-style-type: none"> <li>• The Permanent Account Number (PAN)</li> <li>• Verify the copy of the PAN card after sighting the original.</li> <li>• Cross-check the aforesaid details collected from the client with the details on the website of the Income Tax Department, i.e. <a href="http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp">http://incometaxindiaefiling.gov.in/challan/enterpanforchallan.jsp</a></li> <li>• Upload details of PAN so collected to the Exchanges as part of unique client Code.</li> </ul> <p><b>Note 2:</b> Obtaining the original PAN card, making a copy of the PAN card and verification of the copy of the PAN card against the original is not required for institutional clients, where the custodians of the institutional clients have verified the PAN details of the institutional clients with the original PAN card and provided a certified copy of such verified PAN details to the Company (Institutional clients are SEBI registered Foreign Institutional Investors, Mutual Funds, Venture Capital Funds, and Foreign Venture Capital Investors, Scheduled Commercial Banks, Multilateral and Bilateral Development Financial Institutions, State Industrial Development Corporations, Insurance Companies registered with the Insurance Regulatory Development Authority (IRDA) and Public Financial Institutions as defined under section 4A of the Companies Act, 1956 of India).</p>
<p><b>Individuals</b></p>	<p>The following <b>additional</b> information / documentation shall be obtained and kept:</p>

- a) Legal name and any other names used
- b) Correct permanent address

Any of the following document(s) as relevant of the above verification, shall be obtained in order to satisfy the requirement to verify a):

- Passport
- PAN card
- Voters identity card
- Driving licence
- Aadhar Card
- Letter from a recognised public authority or public servant verifying the identity and residence of the customer

Any of the following document(s) as relevant for the above verification shall be obtained in order to satisfy the requirement to verify b):

- Latest landline telephone bill (not more than three months old)
- Latest Bank Account Statement/ Passbook (not more than three months old)
- Letter from any recognised public authority or a self declaration by a high court or supreme court judge.
- Latest Electricity Bill (not more than three months old)
- Ration Card copy
- Driving licence copy
- Passport copy
- Aadhar Card

The following **additional** information / documentation shall be

	<p>obtained and kept:</p> <ul style="list-style-type: none"> <li>• <b>One</b> certified copy of an officially valid document containing details of his permanent address or addresses and current address or addresses (if different)</li> <li>• recent photograph</li> <li>• Nature of the business/ occupation of the client, source of income and his financial status.</li> <li>• Certified copy of income tax returns or Form 16 in case of salaried persons.</li> </ul>
<p><b>HUF</b></p>	<p>Proof of identity:</p> <p>One certified copy of any one of the following:</p> <ul style="list-style-type: none"> <li>• Copy of Pan card of the HUF / Deed of declaration of HUF</li> </ul> <p>Proof of address:</p> <p>One certified copy of any one of the following:</p> <ul style="list-style-type: none"> <li>• Latest Bank statement (not more than three months old)</li> <li>• Income tax assessment order or Income tax returns</li> </ul> <p>Nature of business of the HUF, source of income and its financial status.</p> <p>Identification of the Karta:</p> <p>The following documents/ information should be collected for the karta:</p> <ul style="list-style-type: none"> <li>• Recent photograph of the karta</li> <li>• Proof of identity: Certified copy of any one document listed for proof of identity in case of individuals above.</li> <li>• Proof of address: One certified copy of any one of the document listed for proof of address in case of individuals above.</li> </ul>
<p><b>Corporates</b></p>	<p>The following <b>additional</b> information / documentation shall be</p>

obtained and kept:

- a) Nature of the business / occupation of the client and its financial status
- b) Name of the company
- c) Principal place of business
- d) Mailing address of the company
- e) Telephone/Fax number

Any of the following document(s) as relevant for the above verification shall be obtained in order to satisfy the requirement to verify b) to e):

- Certificate of Incorporation and Memorandum & Articles of Association
- Copy of PAN allotment letter
- Copy of the telephone bill
- Latest bank account statement
- Annual report

One Certified copy of the following documents shall be collected:

- a) Certificate of Incorporation (or equivalent)
- b) Memorandum and Articles of Association (or equivalent constitutive document)
- c) A resolution from the Board of Directors and power of attorney (if any) granted to its managers, officers or employees to transact on its behalf
- d) An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.
- e) Latest Annual report (Can be taken from the client company's website is publicly available in case of listed

	<p>companies, SEBI/ IRDA regulated entities or other such regulated entities)</p> <p>f) List of current directors of the company</p> <p>g) List of shareholders of the company and further breakup of shareholding of non individual shareholders to determine the ultimate beneficial ownership of the company. (Not required for listed companies)</p> <p>h) Officially valid document for all ultimate beneficial shareholders holding 10% or more interest in the company (Required only for Overseas Corporate Bodies (OCB).</p>
<p><b>Indian Domestic Mutual Funds</b></p>	<p>The following <b>additional</b> information / documentation shall be obtained and kept:</p> <p>A. Asset Management Company (AMC):</p> <p>a) Nature of the business/ occupation of the client and his financial status</p> <p>b) Name of the company</p> <p>c) Principal place of business</p> <p>d) Mailing address of the company</p> <p>e) Telephone/Fax number</p> <p>Any of the following document(s) as relevant for the above verification shall be obtained in order to satisfy the requirement to verify b) to e):</p> <ul style="list-style-type: none"> <li>• Certificate of Incorporation and Memorandum &amp; Articles of Association</li> <li>• Copy of PAN allotment letter</li> <li>• Copy of the telephone bill (not more than three months old). As a last resort if the bills are not available or are not</li> </ul>

	<p>in the name of the company, verification can be done by Company's (CBSL) staff at the given telephone contact number, verifying its correctness and document the same for record purposes</p> <ul style="list-style-type: none"> <li>• Latest bank account statement (not more than three months old)</li> <li>• Annual report</li> </ul> <p>One Certified copy of the following documents shall be collected:</p> <ol style="list-style-type: none"> <li>a) Certificate of Incorporation (or equivalent)</li> <li>b) Memorandum and Articles of Association (or equivalent constitutive document)</li> <li>c) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf</li> <li>d) An officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.</li> <li>e) Latest Annual report</li> <li>f) List of current directors of the company</li> </ol> <p>B. Mutual Fund:</p> <p>Certified copy of:</p> <ul style="list-style-type: none"> <li>• Mutual Fund Registration Certificate</li> <li>• Trust Deed</li> <li>• Resolution of the managing body of the foundation/association</li> <li>• An officially valid document in respect of the person holding an attorney to transact on its behalf.</li> </ul>
<p><b>Partnerships</b></p>	<p>The following <b>additional</b> information / documentation shall be obtained and kept:</p>

- a) Nature of the business/ occupation of the client and financial status
- b) Legal Name
- c) Address
- d) Names of all partners and their Addresses
- e) Telephone Numbers of the Firm and Partners

Any of the following document(s) as relevant for the above verification shall be obtained in order to satisfy the requirement to verify b) to e):

- Registration Certificate
- Partnership deed
- Power of Attorney granted to a partner or an employee of the firm to transact business on its behalf. (No format specified by the regulators and hence may not be on stamped paper)
- Any officially valid document identifying the partners and the persons holding the Power of Attorney and their Addresses.
- Latest Bank Statement (not more than three months old)
- Telephone bill in the name of the firm/partners (not more than three months old). As a last resort if the bills are not available or are not in the name of the partners/ firm, verification can be done by Company's (CBSL) staff at the given telephone contact number, verifying its correctness and document the same for record purposes.

One certified copy of the following documents shall be collected:

- Registration Certificate (or equivalent)

	<ul style="list-style-type: none"> <li>• Partnership Deed</li> <li>• An officially valid document in respect of the person holding an attorney to transact on its behalf.</li> <li>• An officially valid document for all the working partners and those holding 10% or more ultimate beneficial interest in the firm.</li> </ul>
<p><b>Trusts And Foundations</b></p>	<p>The following <b>additional</b> information / documentation shall be obtained and kept:</p> <ol style="list-style-type: none"> <li>a) Nature of the business/ occupation of the client and his financial status</li> <li>b) Names of trustees, settlers, beneficiaries, signatories, protectors (if any)</li> <li>c) Names and addresses of the founder, the managers/directors and the beneficiaries</li> <li>d) Telephone/fax numbers</li> </ol> <p>Any of the following documents as relevant for the above verification shall be obtained in order to satisfy the requirement to verify a) to d):</p> <ul style="list-style-type: none"> <li>• Certificate of Registration</li> <li>• Trust deed</li> <li>• Telephone bill (not more than three months old). As a last resort if the bills are not available or are not in the name of the partners/ firm, verification can be done by Company's (CBSL) staff at the given telephone contact number, verifying its correctness and document the same for record purposes.</li> <li>• Financial Statements</li> <li>• Any other document issued by government/ regulatory</li> </ul>

	<p>bodies or as approved by the MLRO.</p> <p>One Certified copy of following documents shall be collected:</p> <ul style="list-style-type: none"> <li>• Registration Certificate (or equivalent)</li> <li>• Trust Deed</li> <li>• A Resolution from Trustees/ managing body and Power of Attorney (if any) granted to transact business on its behalf</li> <li>• An officially valid document in respect of the person holding an attorney to transact on its behalf.</li> <li>• Any officially valid document to identify the Trustees, Sponsors, Settlers, Beneficiaries and those holding Power of Attorney.</li> <li>• Latest audited financial statements / Copy of income tax return along with Balance sheet in case of non audited entities</li> </ul>
<p><b>Unincorporated Association Or Body Of Individuals</b></p>	<p>The following <b>additional</b> information / documentation shall be obtained and kept:</p> <p>a) Nature of the business/ occupation of the client and his financial status</p> <p>Registered address and Principal place of business along with proof for address verification (Latest telephone / Electricity bill/ bank Statement.)</p> <p>Certified copy of:</p> <ul style="list-style-type: none"> <li>• Resolution of the managing body of such association or body of individuals</li> <li>• Power of attorney granted to him to transact on its behalf</li> <li>• An officially valid document in respect of the person holding an attorney to transact on its behalf.</li> </ul>

	<ul style="list-style-type: none"> <li>• Information to collectively establish the legal existence of such an association or body of individuals.</li> <li>• List of members of the governing body or equivalent.</li> <li>• List of persons holding 10% or more beneficial interest in the entity.</li> <li>• Latest Annual report/ audited financial statements.</li> </ul>
<p><b>Non-resident individuals (High risk customer)</b></p>	<p>Proof of identity:</p> <p>One certified copy of any of the following:</p> <ul style="list-style-type: none"> <li>• Passport</li> <li>• Driving licence</li> <li>• Voter’s Id Card</li> <li>• PIO Card</li> </ul> <p>Proof of Address (Local address in India):</p> <p>One certified copy of any of the following:</p> <ul style="list-style-type: none"> <li>• Latest Telephone bill (not more than three months old)</li> <li>• Latest Electricity bill (not more than three months old)</li> <li>• Passport copy</li> <li>• Latest bank Statement or copy of passbook</li> <li>• Driving licence</li> </ul> <p>Proof of Address (Foreign address outside India):</p> <p>Complete address would be required. PO Box address would not suffice.</p> <p>One certified copy of any of the following:</p> <ul style="list-style-type: none"> <li>• Latest Telephone bill (not more than three months old)</li> <li>• Latest Electricity bill (not more than three months old)</li> <li>• Latest bank Statement or copy of passbook (not more than three months old)</li> </ul>

	<ul style="list-style-type: none"> <li>• Driving licence</li> <li>• Any other document issued by the government or local authority in the country of residence.</li> </ul> <p>The following information/ certified documents shall be obtained:</p> <ul style="list-style-type: none"> <li>• Nature of business / occupation of the client, Source of income and his financial status. Appropriate proof (Annual financial statements, latest audited report, Income tax returns etc. ) to verify the financials of the client should be obtained</li> <li>• Most Recent photograph</li> </ul> <p>In case the documents are in foreign language the same should be translated in English and certified by a government authority or Indian embassy in the country of residence or the by the foreign embassy of that country in India.</p>
<p><b>Enhanced Due diligence (EDD)</b></p>	<p>Enhanced Due Diligence measures shall be adopted for customers, with a high-risk profile, especially those for whom the sources of funds are not clear, transactions carried through correspondent accounts and customers who are Politically Exposed Persons (PEPs) resident outside India and their family members/close relatives.</p> <p>The following customers are classified as high risk customers:</p> <ol style="list-style-type: none"> <li>a) Non-resident Indian clients;</li> <li>b) High net worth clients;</li> <li>c) Trust, charities, NGOs and organisations receiving donations</li> <li>d) Companies having close family shareholdings or</li> </ol>

	<p>beneficial ownership</p> <p>e) Politically exposed persons (PEPs) of foreign origin</p> <p>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)</p> <p>g) Companies offering foreign exchange offerings</p> <p>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 available at <a href="http://www.transparency.org/">http://www.transparency.org/</a>) is highly prevalent, countries against which government sanctions are applied, countries reputed to any of the following – havens / sponsors of international terrorism, offshore financial centres, tax havens, countries where fraud is highly prevalent and those listed in Non-cooperative countries and territories NCCT). Indicative list, links and resources for high risk Jurisdiction are attached as <b>Annexure 4.</b></p> <p>i) Non face to face clients</p> <p>j) Clients with dubious reputations as per public information available</p> <p>k) Customers carrying out high risk business and services like Money transfers agents, Casino, Gambling, precious metals, etc.</p> <p>Along with the Customer Identification procedures outlined,</p>
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CBSL, shall perform enhanced due diligence for above category of customers which shall include the following:

- Identify the nature of business of the customer.
- Source of funds of the customers
- Understanding the wealth creation background of the customer
- Identifying if there are any negative news or negative reports about the customer or its beneficial owners as the case may be.

These checks may be done by the following means if applicable for the above checks:

- Accepting copies of tax returns/ income statements/ audited financial statements.
- Google or internet search on the background of the customer
- Third party references.
- Networth certificates issued by appropriate authority (e.g Chartered Accountant, Solicitor etc.)
- Any other means as appropriate and as approved by the MLRO.

The Company shall:

- ✓ Perform name screenings as outlined in the paragraph marked for "Name screenings and background checks".
- ✓ flag such customers as high risk in the system database for carrying out effective ongoing monitoring of transactions. And
- ✓ shall analyze the information available about the customer taking in to consideration, the geographical risk and business risk and satisfy the genuineness of the customer before accepting relationship with high risk persons.

	<p>✓ The Company shall specifically apply EDD measures, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF</p>
<p><b>Politically exposed persons (PEP)</b></p>	<p>Appropriate Enhanced Due Diligence measures shall be adopted for customers, who are Politically Exposed Persons (PEPs) resident outside India and their family members/close relatives. 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.</p> <p>Along with the customer identification procedures and Enhanced due Diligence procedures outlined above, the decision to open an account for PEPs shall be taken at a reasonably senior level in the Company. Such accounts shall be subject to enhanced monitoring on an ongoing basis.</p> <p>Procedure to be adopted for PEPs:</p> <ul style="list-style-type: none"> <li>✓ Enhanced due diligence Measures along with the normal Client identification procedures should be applied.</li> <li>✓ Verify the source of funds <b>as well as wealth of clients and beneficial owners identified as PEP**</b> of such clients. (inserted vide Board Note No.40/2010-11 dt 13.12.2010)</li> <li>✓ Verify if there are any negative news against such a person.</li> <li>✓ Prior approval shall be obtained from the MLRO, Business head responsible for the customer account and the Managing director, after considering the risk perception of such person before opening an account.</li> </ul>

<p><b>Persons acting as Agents and Beneficial ownership</b></p>	<p><u>Agency Relationship</u>: In case of persons who are acting as an agent for another principal, the due diligence procedures outlined in this customer Identification procedure shall be applicable to both the principal and the agent based on their type of entity.</p> <p>CBSL shall, for all type of customers, determine whether the customer is acting on behalf or for the benefit of another person. For this purpose the company shall apply the CIP measures as set out above for identifying and verifying the identity of that other person.</p> <p><u>Beneficial ownership</u>:</p> <p>Beneficial ownership implies the ultimate individual beneficial owner of the entity.</p> <p>In case of non-individual shareholders/ owners/ partners/ Beneficiaries as the case may, the ultimate individual beneficial owner should be identified in all cases except for listed companies.</p> <p><u>Determination of beneficial ownership</u> ( SEBI Circular CIR/MIRSD/2/2013 DATED 24.01.2013 )</p> <p>Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the company shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons , through the following information:</p> <p>The identity of the natural person, who, whether acting alone or together or through one or more judicial person, exercise control through owner ship or who ultimately has controlling ownership interest.</p> <p>Controlling ownership interest means</p>
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	<p>i. more than 10% of shares or capital or profits of the juridical person, where it is a company</p> <p>ii. more than 10 % of the capital or profits of the juridical person, where it is a partnership.</p> <p>iii. more than 15 % of the property or capital or profits of the juridical person, where it is an unincorporated person or body of individuals.</p> <p>Where the client is a trust, the company shall identify the beneficial owner of the client through the identity of the settler of the trust, the trustee, the protector or the beneficiaries with 10% or more interest in the trust or any natural person exercising ultimate effective control over the trust.</p>
<p><b>Certification of documents</b></p>	<p>Certification of KYC documents listed in the Customer identification procedures should be done in the following manner:</p> <p>The following are acceptable forms of certification:</p> <ul style="list-style-type: none"> <li>• Domestic Individuals clients – Certified by a Notary, or the documents can be self attested by the client along with original verification by Company’s staff / Bank Officer and above.</li> <li>• Non Resident Indian client – Certified by Embassy / Consulate or as per the regulatory norms prescribed by the regulators from time to time and approved by the MLRO.</li> <li>• Corporates and connected persons – Certified by a Notary Public, Or the documents can be self attested by the director or company secretary of the corporate along with original verification by Company’s staff / Bank Officer and above</li> <li>• Partnerships &amp; trusts and other entities – Certified by a</li> </ul>

	<p>Notary Public, Or the documents can be self attested by a partner / Karta or authorised signatory of the customer along with original verification by Company's staff / Bank Officer and above.</p>
<p><b>Reliance on third party for carrying out Client Due Diligence (CDD)</b></p>	<ul style="list-style-type: none"> <li>• Company may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.</li> <li>• Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Company shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.</li> <li>• Verify the client's identity using reliable, independent source documents, data or information. Where the client purports to act on behalf of juridical person or individual or trust, the registered intermediary shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person</li> </ul>

<p><b>Name screenings and background checks (Applicable for high risk clients only)</b></p>	<p>The name of the customer and those of their related persons including, all principal directors, promoters, beneficial owners, authorized signatories related entities shall be screened against the following:</p> <ul style="list-style-type: none"> <li>✓ watch lists prescribed by RBI,</li> <li>✓ Interpol at the following URL link <a href="http://www.interpol.int/Public/Wanted/Search/Form.asp">http://www.interpol.int/Public/Wanted/Search/Form.asp</a></li> <li>✓ OFAC/ SDN list at the following URL link: <a href="http://www.instantofac.com/search.php">http://www.instantofac.com/search.php</a></li> </ul> <p><i>An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services. etc. as approved by Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed in the United Nations website at <a href="http://www.un.org/sc/committees/1267/consolist.shtml">http://www.un.org/sc/committees/1267/consolist.shtml</a>.</i></p> <p><i>Before opening any new account, it shall be ensured that the name/s of the proposed customer does not appear in the list. Further, all existing accounts shall also be continuously scanned to ensure that no account is held by or linked to any of the clients or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list should immediately be intimated to SEBI and FIU-IND.</i></p> <p style="text-align: right;"><small>(inserted vide Board Note No.42/2009-10 dt 2.12.2009)</small></p> <p>The evidence of name screening shall be stored for audit purpose. In future, the management may decide to subscribe to the services of Worldcheck, Factiva , World Tracker or any such negative name screening database.</p> <p>If there is any match on the name of the customer or related persons the following procedure should be adopted:</p>
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	<ul style="list-style-type: none"> <li>✓ Verify if the name of the person and that of the matched person is same.</li> <li>✓ In case the name is significantly matching, other parameters as available like, date of birth, place of birth, country of origin, Nationality, etc should be checked for both the persons to see if there are any commonalities. If the above details are also same, it may be classified as a true match.</li> <li>✓ In case of doubts, the results should be discussed with the MLRO for his opinion.</li> <li>✓ If the match is classified as a true match, the same should be escalated to the MLRO. The MLRO shall review the nature of negative news against the person and decide if a suspicious transaction report is required to be filed.</li> <li>✓ The Stock Exchanges and the registered intermediaries shall leverage latest technological innovations and tools for effective implementation of name screening to meet the sanctions requirements</li> </ul>
<p><b>Periodic Review of KYC Profile</b></p>	<p>The Company shall review the information obtained about the customer and apply appropriate customer due diligence (CDD) standards on given change in the risk categorization of the customer. <b><i>All documents, data or information of all clients and beneficial owners collected under the CDD process shall be updated periodically.</i></b>**The Company shall review the KYC profile of its customers as follows: (inserted vide Board Note No.40/2010-11 dt 13.12.2010)**</p> <ul style="list-style-type: none"> <li>• High Risk – Once in every 2 years.</li> <li>• If there is a change in the profile of the customer identified</li> </ul>

	<p>based on sudden change in the transaction pattern or risk rating of the customer, the Company shall review the KYC details of the customer on the identification of such event, even though the same is before the review period.</p> <ul style="list-style-type: none"> <li>• The review of the customer shall include a review of any change in the customer details i.e address, business/ profession, nature of business, change in ownership, change in governing body/ directors etc. This shall be done in a manner as specified by the MLRO of the company.</li> <li>• <b><i>The CDD process should necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT)</i></b> <b>**</b>(inserted vide Board Note No.40/2010-11 dt 13.12.2010)</li> </ul>
<p><b>Reporting to MLRO</b></p>	<p>All staff shall report, any abnormality or suspicion arising from any transaction while applying due diligence procedures on a customer, to the MLRO for his approval. This may be done on the following occasions:</p> <ul style="list-style-type: none"> <li>• If there are any serious negative news about the customer.</li> <li>• If there are reasons for suspicion on the genuineness of the information provided by the customer.</li> <li>• If there is suspicion or reason that the person may or is linked to or involved in money laundering acts or proceedings.</li> <li>• If there is a doubt or suspicion on the nature of transaction requested or executed by the customer.</li> </ul> <p>Please note that the above is for an illustration purpose, and is not an exhaustive list. The staff should be alert if there are any other suspicious activity or negative information about the customer which may lead to reputation, legal or financial risk to the Company from a Money Laundering perspective.</p>

## Annexure III

### **TRANSACTION MONITORING PROCEDURES:**

The Company’s Anti Money Laundering policy sets out the approach to the prevention of money laundering which includes a requirement to monitor customer accounts and to identify suspicious transactions on an ongoing basis.

#### **Suspicious Transaction – Rule 2(1)(g) of the PMLA Rules**

Suspicious transaction is a 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 the proceeds of crime; or
- (b) appears to be made in circumstances of unusual or unjustified complexity; or
- (c) appears to have no economic rationale or bonafide purpose;

***The background including all documents/office records/memorandums/ clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further, such findings, records and related documents should be made available to auditors and also to SEBI/Stock Exchanges/FIU-IND/Other relevant authorities, during audit, inspection or as and when required. These records are required to be preserved for five years as required under PMLA 2002.***

(Modified vide Board Note No.42/2009-10 dt 2.12.2009)

Based on the guidelines provided by SEBI, PMLA, NSE and BSE for monitoring and identifying suspicious transactions, the below procedures have been formulated to prevent the Company from being used as a channel for money laundering:

<b>Dormant Accounts</b>	<u>Classifying an account as Dormant:</u> The Company shall classify a customer account as Dormant if there
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	<p>is no transaction in an account for 6 months.</p> <p>A report shall be generated at the end of every month listing out the accounts in which there have been no transactions for the past 6 months. All such accounts shall be flagged as dormant.</p> <p><u>Activation of Dormant Accounts:</u></p> <p>Activation of all dormant account would require approval from the MLRO or by a person designated by him.</p>
<p><b>Cross Trades</b></p>	<p>The term “Cross trades” refers to trades executed among known circles / persons for manipulating the security / contract/ market. This may also be used as a tool for laundering money by transferring laundered funds through the Exchange settlement mechanism. Illiquid securities or contracts are more prone to such practices, however the possibility of such trades cannot be ruled out in other securities/ contracts</p> <p>In order to counter such practice the following procedures shall be adopted.</p> <p>A daily report shall be generated to identify if there are any cross trades executed by the customers. The report shall be based on the following parameters.</p> <ul style="list-style-type: none"> <li>✓ Transactions with buy and sell orders of same quantity placed in a security / contract by two or more customers or a group of customers at or around the same time or during the day.</li> <li>✓ Transactions wherein a customer has squared off his positions during the day and the first or second set of transaction was executed at a price significantly away from the last traded price / prevailing market price or the</li> </ul>

	applicable spot price in case of derivative contracts.
<b>Off Market transfers/ transactions through DP Accounts.</b>	<p>In case the Company commences Depository Participant operations, the following procedures shall be followed:</p> <p>A weekly report shall be generated on all off market transfers from DP account of the customers. These transactions shall be analyzed to identify if there is a pattern in any account whereby frequent transfers are being done from or to the DP account of a customer to or from third parties.</p> <p>In addition to identify any abnormalities, it shall also be checked if the securities received through off market deals are sold and funds received are remitted to third parties.</p>
<b>Examples of suspicious transactions</b>	<p>Below is an illustrative list of transactions/ activities that can be termed as suspicious. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances. (In case any staff comes across such transactions or has reasonable ground for suspicion the same should be brought to the notice of the MLRO).</p> <ul style="list-style-type: none"> <li>✓ Clients whose identity verification seems difficult or clients appear not to cooperate</li> <li>✓ Substantial increase in activity by a customer without any apparent cause</li> <li>✓ Large number of accounts having common parameters such as common partners / directors / promoters / address / email address / telephone numbers / introducers or authorized signatories;</li> <li>✓ Transactions with no apparent economic or business rationale</li> <li>✓ Sudden activity in dormant accounts;</li> <li>✓ Source of funds are doubtful or inconsistency in payment</li> </ul>

pattern;

- ✓ Unusual and large cash deposits made by an individual or business;
- ✓ Transfer of investment proceeds to apparently unrelated third parties;
- ✓ Multiple transactions of value just below the threshold limit specified in PMLA so as to avoid possible reporting;
- ✓ Unusual transactions by CSCs and businesses undertaken by shell corporations, offshore banks /financial services, businesses reported to be in the nature of export-import of small items.;
- ✓ Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
- ✓ Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
- ✓ Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- ✓ Purchases made on own account transferred to a third party through off market transactions through DP Accounts;
- ✓ Suspicious off market transactions;
- ✓ Large deals at prices away from the market.
- ✓ 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.
- ✓ Trading activity in accounts of high risk clients based on their profile, business pattern and industry segment.

**INDICATIVE LIST OF JURISDICTIONS INTERNATIONALLY ACCEPTED AS HIGH RISK:**

(Applicable in case of overseas and NRI customers for risk classification purposes) Care should be taken and enhanced due diligence should be performed before opening accounts for persons listed in the below high risk jurisdictions.

International high-risk geographic locations generally include:

- Countries subject to OFAC sanctions, including state sponsors of terrorism.  
<http://www.treas.gov/offices/enforcement/ofac/>
- Countries identified as supporting international terrorism under section 6(j) of the Export Administration Act of 1979, as determined by the Secretary of State.  
<http://www.state.gov/s/ct/rls/crt/>
- Jurisdictions determined to be "of primary money laundering concern" by the Secretary of the Treasury, and jurisdictions subject to special measures imposed by the Secretary of the Treasury, through FinCEN, pursuant to section 311 of the Patriot Act.  
[http://www.fincen.gov/reg\\_section311.html](http://www.fincen.gov/reg_section311.html)
- Jurisdictions or countries identified as non-cooperative by the Financial Action Task Force on Money Laundering (FATF). As on October 13, 2006 which is the latest updation in the NCCT list, there are no NCCTs.  
<http://www.fatf-gafi.org/>
- Major money laundering countries and jurisdictions identified in the U.S. Department of State's annual International Narcotics Control Strategy Report (INCSR), in particular, countries which are identified as jurisdictions of primary concern.  
<http://www.state.gov/p/inl/rls/nrcrpt/>

- Offshore financial centers (OFCs) as identified by the U.S. Department of State.  
<http://www.imf.org/external/ns/cs.aspx?id=55>
- Countries with High corruption can be found on as per Transparency International Corruption Perception Index available on the following link  
[http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi)
- Countries under United Nations Economic Sanctions and Embargoes:  
<http://www.un.org/sc/committees/index.shtml>.

**PROCEDURE AND FORMAT OF FILING SUSPICIOUS TRANSACTION REPORT (STR):**

The detailed procedure for filing of suspicious transaction report is outlined on the Financial Intelligence Unit- India (FIU-IND) website at <http://fiuindia.gov.in/furnishing-suspicious.htm>.

As per the procedures outlined by FIU-IND, the following shall be followed:

**Timing of filing a STR:**

As required by Rule 8 of PMLA, the MLRO (Principal Officer) of CBSL shall furnish the information of the suspicious transactions to Director, FIU-IND within 7 working days of establishment of suspicion at his level.

The address of the Director of FIU-IND for furnishing the STR and as notified currently is:

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

**Methods of filing STR:**

Suspicious Transaction Reports can be filed either in manual or electronic format as per the guidelines provided by FIU-IND, the same are as outline below:

1. Manual format

Suspicious Transaction Report in manual format shall to be filed in following forms as prescribed by FIU-IND:

Description of Form	Information
Suspicious Transaction Report for an intermediary	Details of suspicious transactions
Annexure A- Individual Detail Sheet for an intermediary	Identification details of individual
Annexure B- Legal Person/ Entity Detail Sheet for an intermediary	Identification details of legal person /entity
Annexure C- Account Detail Sheet for an intermediary	Details of account and transactions

The links for the above forms are as follows:

[\*Suspicious Transaction Report for an intermediary\*](#)

[\*Annexure A- Individual Detail Sheet for an intermediary\*](#)

[\*Annexure B- Legal Person/ Entity Detail Sheet for an intermediary\*](#)

[\*Annexure C- Account Detail Sheet for an intermediary\*](#)

## 2. Electronic Format

Infrastructure requirement and file format for electronic submission of STR is detailed in the FIU-IND website under the link FAQ . Company shall adhere to the same based on the changes made by FIU-IND from time to time.

- i) One CD containing six data files in prescribed data structure (Refer link below). A label mentioning name of the intermediary, SEBI registration number of intermediary, type of report (STR), date of sending report should be affixed on each CD for the purpose of identification.
- ii) Each CD should be accompanied by Suspicious Transaction Report for an intermediary (same form should be used for both manual as well as electronic format) in physical form duly signed by the principal officer. This summary should match with the data in Control File (SINCTL.txt). There is no need to submit other annexures in the physical form.

**Important:**

- i) In case the size of data files exceeds the capacity of one CD, the data files should be compressed by using Winzip 8.1 or ZipItFast 3.0 (or higher version) compression utility only to ensure quick and smooth acceptance of the file.
- ii) The CD should be virus free.

FIU-IND has provided operation guidance in preparing the STR in electronic format which is available on FIU's website on the following link:

<http://fiuindia.gov.in/furnishing-reportingformat.htm>. The information relevant to the financial intermediary for reporting should be considered.

## Annexure VI

**Generation of Internal trade Alerts Indicators in the TSS software as per PMLA (Prevention of Money Laundering Act).**

Being the capital market intermediary, we are subject to the Compliance from all regulators as well as the exchanges. The clients from various walks of life with varied interests trade with us. There is an every possibility that client may deviate from the norms prescribed by the regulators as well as exchanges knowingly or unknowingly. Thus it is very important to have strict vigilance over the trades happening with our trade terminal. The alerts need to be generated with the predefined criteria to investigate the abnormal trade practices. Further enquiry into the rational of trade with the concerned party to be noted and needs to be analyzed. Moreover it is also important to inform the exchange if the client response is not adequate.

In view of the above, the following additional indicators with the parameters have been set as the preliminary guidelines to generate the internal alerts. However the guidelines are not extensive in nature and the alert generating designator should invariably search for the abnormalities with utmost cautiousness.

**Generation of Alerts and its Analysis:**

S. No.	Alert Name	Purpose	Threshold Limit
1.	Net money in 30 days (S21) *	<ol style="list-style-type: none"> <li>Client is investing funds which are not a part of his disclosed wealth. (Undeclared Income)</li> <li>To check the sources/mode of the funds received.</li> </ol>	Amount of Rs.50 lacs or more received in a month.
2.	Issued capital turnover in single Day(S25)	<ol style="list-style-type: none"> <li>Could lead to indicators of market manipulation.</li> <li>Could lead to indicators of Insider Trading.</li> <li>Could lead to indicators of artificial volume creation</li> </ol>	0.50% of the Issued Capital in a single day.
3.	Scrip Concentration in 30 days(S26)	<ol style="list-style-type: none"> <li>Could lead to indicators of market manipulation</li> <li>Could lead to indicators of price manipulation</li> <li>Could lead to indicators of artificial volume creation</li> </ol>	Client concentration reaches 25 lacs and the scrip concentration is 80% of the scrip concentration.  Exclude scrip of A & B group.
4.	Net money in 1	<ol style="list-style-type: none"> <li>Could lead to conclusion that</li> </ol>	Amount of Rs.10 lacs or more

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	day(S30)*	<p>the ultimate beneficial owner is someone other than the client.</p> <p>2. Client is investing funds which are not a part of his disclosed wealth. (Undeclared Income)</p>	received in a single day.
5.	Net money out 1 day(S31)*	<p>1 Could lead to conclusion that the ultimate beneficial owner is someone other than the client.</p> <p>2. Client is investing funds which are not a part of his disclosed wealth. (Undeclared assets)</p>	Amount of Rs.10 lacs or more paid in a single day.
6.	Net money out 30 day(S34)*	<p>1 Could lead to conclusion that the ultimate beneficial owner is someone other than the client.</p> <p>2. Client is investing funds which are not a part of his disclosed wealth. (Undeclared assets)</p> <p>3. Could lead to conclusion that the ultimate beneficial owner is Third Party in case the shares sold are received from third party from Demat Statement.</p>	Amount of Rs.50 lacs or more paid in 30 days.
7.	Synchronized Trade in 1 day FO(S43)	<p>1. Indication of market manipulation.</p> <p>2. Pump and dump theory indicators.</p> <p>3. Indicators on artificial volume profit or loss creation.</p> <p>4. Indicators on artificial volume creation.</p> <p>5. Indicators of activity in illiquid scrip.</p> <p>6. Indicators of circular trading</p>	<p>Where the trade value is more than:</p> <ul style="list-style-type: none"> <li>• Futures= 50 lacs</li> <li>• Options= 1 crore</li> </ul>
8.	Artificial volume creation Buy/Sell-Cash Segment(S50)	<p>1. Artificial volume creation in cash segment</p> <p>2. Could give lead to Insider Trading indicators.</p> <p>3. Could lead to indicators of</p>	<ul style="list-style-type: none"> <li>• Turnover= 5Lacs, &amp;</li> <li>• Scrip concentration=10% of the exchange volume &amp;</li> <li>• Times (Buy + Sell) = 3times in 30 days.</li> </ul> <p>When all these three criteria are</p>

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		market manipulation 4. Could lead to indicators of price manipulation	matched, the alert will be generated.
9.	Artificial volume creation in illiquid scrip-Buy/Sell(S51)	<ol style="list-style-type: none"> <li>1. Could give lead to Insider Trading indicators.</li> <li>2. Could lead to indicators of market manipulation</li> <li>3. Could lead to indicators of price manipulation</li> </ol>	<ul style="list-style-type: none"> <li>• Turnover= 1Lacs &amp;</li> <li>• Scrip concentration=5% of the exchange volume &amp;</li> <li>• Times (Buy + Sell) = 2 times in 30 days.</li> </ul> <p>When all these three criteria are matched, the alert will be generated.</p>
10.	Artificial volume creation FNO (S52)	<ol style="list-style-type: none"> <li>1. Could give lead to Insider Trading indicators.</li> <li>2. Could lead to indicators of market manipulation</li> <li>3. Could lead to indicators of price manipulation</li> </ol>	25% of the exchange volume.
11.	Net pay in cash segment average 6 months (S53)*	1.To identify clients which bring in money, beyond the declared (In KYC) financial strength	Amount of Rs. 1 crore received twice in 6 months
12.	Net pay out cash segment average 6 months (S54)*	1.To identify clients which take money and which is beyond the declared (in KYC) net worth.	Amount of Rs. 50 lacs paid twice in 6 months.
13.	Self-Trade in single day in Equity segment(S55)	1. To identify client who indulge in Market Manipulation activity by simultaneously buying and selling with the same broker at same location or at different location which may result into creation of artificial market making for volume generation for scrip or Undergoing making of artificial profit or loss creation or circular trading activity.	Where the Turnover exceed 1 Rs
14.	Self-Trade in single day in FNO segment(S56)	1. To identify client who indulge in Market Manipulation activity by simultaneously buying and selling with the same broker at same location or at different location which may result into creation of artificial market making for volume generation for scrip or Undergoing making of artificial profit or loss creation or circular trading activity.	Where the Turnover exceed 1Rs
15.	Delivery turnover in	To identify whose turnover is	Where the delivery turnover

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	single day(S58)	disproportionate with the annual income/Net worth provided in the KYC.	exceed 50 lacs and 2 times of the delivery multiplier where the delivery multiplier includes (Income + Net worth)*2.
16.	High money in flow in new account(S59)*	To check the suspicious transactions and to compare the financial capability of the client as given in the KYC.	Single transaction amounting to Rs 10 lacs or more.
17.	High money out flow in new account(S60)*	To check the suspicious transactions and to compare the financial capability of the client as given in the KYC.	Single transaction amounting to Rs 10 lacs or more.
18.	Trade in dormant account(180 days)(S64)	To check the transactions value greater than threshold limit within one month form the date of activation.	Where the total turnover exceeds 5 lacs
19.	Marking High Open price (S72)-Transaction where first trade price and last trade price are higher than the previous day's closing price in small quantities.	<ol style="list-style-type: none"> <li>1. Could give lead to Insider Trading indicators.</li> <li>2. Could lead to indicators of market manipulation</li> <li>3. Could lead to indicators of price manipulation</li> </ol>	Turnover is less than 1 lacs
20.	Small orders in single stock 15 days(S73)	<ol style="list-style-type: none"> <li>1. Could give lead to Insider Trading indicators.</li> <li>2. Could lead to indicators of market manipulation</li> <li>3. Could lead to indicators of price manipulation</li> </ol>	Small order quantity=5 quantity & Small order percentage=80% of the exchange volume & Minimum order=30 times in 15 days.  Exclude scrip belonging to A & B group
21.	Intraday turnover in single day-cash Segment(S86)	<ol style="list-style-type: none"> <li>1. Could give lead to Insider Trading indicators.</li> <li>2. Could lead to indicators of market manipulation</li> </ol>	Turnover =50 lacs and trading multiplier 10 times where the multiplier includes (Income + Net worth)*10.
22.	Intraday turnover in single day-FNO Segment(S87)	<ol style="list-style-type: none"> <li>1. Could give lead to Insider Trading indicators.</li> <li>2. Could lead to indicators of market manipulation</li> </ol>	Turnover= 2 crores and trading multiplier 10 times where the multiplier includes (Income + Net worth)*10.
23.	Structured Purchases (For 90 days) (S88)-	<ol style="list-style-type: none"> <li>1. Could give lead to Insider Trading indicators.</li> </ol>	Net buy to issued capital exceeds 5% of total share capital in 30

	where the bulk trade is being placed by the client at a price away from the normal market price.	2. Could lead to indicators of market manipulation	days.
24.	Turnover in GSM scrip(S91)	1. Could give lead to Insider Trading indicators. 2. Could lead to indicators of market manipulation	Turnover=5000 or more

**\*Alerts are not applicable as the same is being monitored by the bank.**

**# Institutional and proprietary trades are excluded for the generation of alerts.**

**SUB: Defining the AML (Anti Money Laundering) parameters for the additional alerts Indicators in the TSS software use for the generation of internal trade alerts**

Generation of Alerts and its Analysis:

S. No.	Alert Name	Purpose	Threshold Limit
1.	High Turnover in 1 Day EQ (S24)	1. The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold  2. Client turnover in stock buy or sell is greater than or equal to set turnover threshold	<ul style="list-style-type: none"> <li>• Turnover= 5Lacs, &amp;</li> <li>• Scrip concentration=10% of the exchange volume &amp;</li> <li>• Times (Buy + Sell) = 3times in 30 days.</li> </ul> When all these three criteria are matched, the alert will be generated.
2.	High Turnover 1 Day FNO (S49)	1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold  2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold	Retail client in FUTIDX & FUTSTK <ol style="list-style-type: none"> <li>1. Greater than or equal to 5%.</li> <li>2. Greater than or equal to Rs.35 lacs.</li> </ol> HUF client in OPTSTK,OPTCUR <ol style="list-style-type: none"> <li>3. Greater than or equal to 4%.</li> <li>4. Greater than or equal to Rs.21 lacs.</li> </ol>
3.	Scenario for Small Orders in Single Stock 15 Days (S73)	To identify clients indulging in frequent small quantity orders	<ol style="list-style-type: none"> <li>1. Small order quantity less than or equal to 5.</li> <li>2. Small order quantity greater than or equal to 75%.</li> <li>3. Minimum order greater than or equal to 10 order.</li> </ol>

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4.	Client Purchase to Income Monthly (S102)	1.The Net buy T/o is greater than or equal to the fair value of client 2.Client Net buy is greater than or equal to set turnover threshold	1.The Net buy T/o is greater than or equal to the Income Strength of client 2.Client Net buy is greater than or equal to 20 lacs
5.	Client Net Sell (S104)	1.The Net Sell T/o is greater than or equal to the fair value of client 2.Client Net Sell is greater than or equal to set turnover threshold	1.The Net Sell T/o is greater than or equal to the fair value of client 2.Client Net Sell is greater than or equal to 20 lacs
6.	Profit compare with Exchange T/o (S126)	1.The profit of the client in thinly traded scrip in a short span of a time is greater than or equal to the set threshold 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold	1. Greater than or equal to 1 lacs or 50% of gain 2. Greater than or equal to 10% of sell turnover
7.	Loss compare with Exchange T/o (S127)	1.To detect The loss of the client in thinly traded scrip in a short span of a time is greater than or equal to the set threshold 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold	1.Greater than or equal to 1 lacs or 50% of loss 2.Greater than or equal to 8% of sell turnover
8.	High Turnover in 1 Day in specific scrip (S145)	1.The percentages of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold 2. Client turnover in stock buy or sell is greater than or equal to set turnover threshold.	1. Greater than or equal to 5 lacs 2. Greater than or equal to 10% of scrip
9.	Speculation Profit/Loss (S149)	The Profit/Loss of the client is greater than or equal to the set threshold	1.The Profit/Loss of the Individual client is greater than or equal to 2.5 lacs 2. The Profit/Loss of the Proprietary client is greater than or equal to 5 lacs
10.	High Turnover by group of clients in 1 Day EQ (S151)	This Scenario will detect the High Turnover done by a group of clients in 1 day. It will generate alert if, 1. The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of clients.	1.Greater than or equal to 10% 2.Greater than or equal to 5 lacs

		2. Client Group turnover in stock buy or sell is greater than or equal to set turnover threshold by group of clients	
11.	High Turnover by group of clients in 1 Day FNO (S152)	This Scenario will detect the High Turnover done by a group of clients in 1 day. It will generate alert if, 1. The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of clients. 2. Client Group turnover in stock buy or sell is greater than or equal to set turnover threshold by group of clients	For FUTSTK 1.Greater than or equal to 3% 2.Greater than or equal to 1 crore For OPTSTK 1.Greater than or equal to 5% 2.Greater than or equal to 50 lacs
12.	High Turnover by new client in 1 Day EQ (S153)	The system will detect and alert if 1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by new client 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by new client	1. Greater than or equal to 7 2. Turnover less than or equal to 5 lacs
13.	High Turnover by Group of new clients in 1 Day EQ (S154)	The system will detect and alert if 1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of new client 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by group of new client	1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to 10% 2.Client Group turnover in stock buy or sell is greater than or equal to 5lacs
14.	High Turnover by new client in 1 Day FNO (S155)	The system will detect and alert if 1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by new client 2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by new client	1. Greater than or equal to 2% 2.Client turnover in stock buy or sell is greater than or equal to 3 crores
15.	High Turnover by Group of new clients in 1 Day FNO (S156)	The system will detect and alert if 1.The percentage of scrip turnover buy or sell to the exchange turnover is greater than or equal to the set Scrip percent threshold by group of	For FUTSTK 1. turnover is greater than or equal to 10% 2.Client Group turnover in stock buy or sell is greater than or equal

		<p>new client                  2.Client turnover in stock buy or sell is greater than or equal to set turnover threshold by group of new client</p>	<p>to 5 lacs                  For OPTSTK                  1. Turnover is greater than or equal to 9%                  2.Client Group turnover in stock buy or sell is greater than or equal to 5 lacs                  3.Number of clients less than or equal to 5                  4.Group share percentage less than 3%</p>
16.	Small orders in single stock by group of clients EQ (S157)	To identify the group of clients indulging in frequent small quantity orders	<p>1.Client small order quantity less than or equal to 5                  2.Group small order total quantity less than or equal to 15                  3.Percentage of total groups order quantity greater than or equal to 50%                  4.Minimum group orders greater than or equal to 10 orders                  5.Number of client in groups less than or equal to 5</p>
17.	Small Orders in Single Stock FNO (S158)	To identify clients indulging in frequent small quantity orders	<p>For FUTSTK                  Client order value less than or equal to 10 lacs of contract value                  For OPTSTK                  Client order value less than or equal to 2 lacs of premium value</p>
18.	Small Orders in Single Stock by Group of Clients FNO (S159)	To identify group of clients indulging in frequent small quantity orders	<p>For FUTSTK                  1.Client small order turnover less than or equal to 10 lacs of contract value                  2.Group small order turnover equal to 50 lacs of contract value                  For OPTSTK                  1.Client small order turnover less than or equal to 1 lacs of premium value                  2. Group small order turnover equal to 2.5 lacs of premium</p>

			value.
19.	Trade near Corporation Announcement (S160)	1.To detect clients and alert if the turnover of client in a particular scrip is greater than or equal to set threshold when there is a corporate announcement for that scrip 2.To detect clients and alert if the Profit/Loss of client in a particular scrip is greater than or equal to set threshold when there is a corporate announcement for that scrip	1.Turnover greater than or equal to 10 lacs 2.The Profit/Loss of client in a particular scrip is greater than or equal to 6lacs

Annexure VI is modified after approved by the Board vide Board Note No.585/2021-22 dated 18.01.2022.

## Annexure VII

**Generation of Internal trade Alerts Indicators in the TSS software as per guidelines issued by Financial Intelligence Unit**

Being the capital market intermediary, we are subject to the Compliance from all regulators as well as the exchanges. The clients from various walks of life with varied interests trade with us. There is an every possibility that client may deviate from the norms prescribed by the regulators as well as exchanges knowingly or unknowingly. Thus it is very important to have strict vigilance over the trades happening with our trade terminal. The alerts need to be generated with the predefined criteria to investigate the abnormal trade practices. Further enquiry into the rational of trade with the concerned party to be noted and needs to be analyzed. Moreover it is also important to inform the exchange if the client response is not adequate.

In view of the above, the Financial Intelligence Unit on 21.07.2022 issued Supplemental Guidelines for detecting Suspicious Transaction under Rule 7(3) of the PMLA (Maintenance of Records) Rules, 2005 defining additional indicators relevant with DP Operations. We have taken up with the vendor RSS Consultancy Pvt Limited and the same will be included in our package by November, 2022. Accordingly the following alerts may be approved for addition in the PMLA Policy.

## Generation of Alerts and it Analysis:

S. No.	Alert Name	Alert Indicator	Threshold Limit
1.	Transaction Monitoring	TM-11 Fund Received from Non-clients	Single or multiple transfer of funds more than 1 Cr in a calendar month in brokers account from multiple sources/accounts which are not reported as clients.
2.	Transaction Monitoring	TM-12 Margin Trading	Sudden increase in the funding amount of Margin Trading Facility(MTF) exposure 1. By more than 50% of MTF exposure of previous month And 2. With a value of more than Rs. 10 crore
3.	Transaction Monitoring	TM-13 Off market Transfer to unrelated accounts	1. Only for Reason code/s - Off market sale - Gift - Donation AND 2. Valuation per debit transaction will be >25 Lacs AND; 3. Exclude accounts with same PAN, mobile, email ID, same bank details(IFSC+ac no) (same mobile/email/bank details in multiple demat account will be treated as related accounts) and family flag is enabled AND; 4. Valuation is >5 times of Income range.
4.	Transaction Monitoring	TM-13A- Suspicious Off market credit and Debit	1. Customer receive credit/demat of 50,000 shares or shares worth Rs. 25 lakhs and above by single transaction or series of transactions in an ISIN AND; 2. 80% or more of credited shares gets debited by way of OFF Market transfers to 3 or more than 3 Unrelated Accounts AND 3. Only Listed Equity shares will be considered for this alert.

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			(Monthly frequency) Short span of time is within 30 days.
5.	Transaction Monitoring	TM-13B- Off market delivery in unlisted scrip	<ol style="list-style-type: none"> <li>1. Single or series of transactions where more than 5,00,000 unlisted equity shares have been transferred within period of 1 month AND;</li> <li>2. Off market Transfers with Reason Code "Off Market Sale", "Donation" and "Gift" will be considered AND;</li> <li>3. Exclude own account transfer(first holder PAN) i.e transfers made through account transfer cum closure module and wit reason code transfer to own accounts.(Monthly frequency)</li> </ol>
6.	Transaction Monitoring	TM-13C Gift, Donation related off-market transfer	<ol style="list-style-type: none"> <li>1. Transaction value of such transaction is beyond 5 times of Income/Range/Networth (as updated in demat account) on higher side as provided by the BO AND;</li> <li>2. Listed Equity shares will be considered AND;</li> <li>3. Debit transaction specific reason codes&gt;5 lacs in value AND;</li> <li>4. For Reason code/s -Family Account Transfer -Gift -Donation</li> </ol>
7.	Transaction Monitoring	TM-13D Off Market transfer at variance with market value	<ol style="list-style-type: none"> <li>1. Off market transfers with reason code "Off Market Sale" AND;</li> <li>2. Difference of +/-50% difference in consideration value mentioned by BO and prevailing market value of equity shares AND;</li> <li>3. Only listed equity shares will be considered AND;</li> <li>4. Minimum transaction value for alert will be Rs. 25 lakhs AND;</li> </ol>
8.	Transaction Monitoring	TM 13E-Off market transfer in suspicious scrip	<ol style="list-style-type: none"> <li>1. Off market single or series of transactions having value of Rs. 2 lakh and above AND;</li> <li>2. Suspicious scrips for which unsolicited SMS's were circulated will be taken from below URL's BSE: <a href="https://www.bseindia.com/attention_investors.aspx">https://www.bseindia.com/attention_investors.aspx</a>  NSE: <a href="https://www.nseindia.com/regulations/unsolicited-messages-report">https://www.nseindia.com/regulations/unsolicited-messages-report</a></li> </ol>
9.	Employee initiated	EL 13-Suspicious Closure of Account	<ol style="list-style-type: none"> <li>1. Accounts closed within 30 days of opening of Account and single or series of debit transactions (On Market, Off market including IDT Transfer) with value&gt;10 lacs AND;</li> <li>2. Exclude own account transfer (first holder pan) i.e., transfers made through account transfer cum closure module and with reason code transfer to own accounts. Also, if securities received in source account through transmission, then the same will be excluded</li> </ol>