

# Two Roads Trading Private Limited



## PMLA Policy

### **INTRODUCTION**

The Prevention of Money Laundering Act, 2002 came into effect from 1 st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 1 st July 2005 by the Department of Revenue, Ministry of Finance, and Government of India. SEBI vide circular dated 18 th January 2006 required Market intermediaries to lay down policy framework for anti money laundering measures to be followed. Two Roads being a Stock Broker needs to adhere to the same. SEBI has also issued a Master circular, which consolidates all the requirements/obligations issued with regard to AML/CFT.

### **MONEY LAUNDERING**

Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.

### **FINANCIAL INTELLIGENCE UNIT (FIU) INDIA**

The Government of India has set up Financial Intelligence Unit (FIU-India) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister FIU –India has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspicious financial transactions. FIU India is also responsible for coordination and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

### **THE PREVENTION OF MONEY LAUNDERING ACT, 2002 (PMLA)**

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance, and Government of India.

As per PMLA, every banking company, financial institution (which includes chit fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and Intermediary (which includes a depository participants, stockbroker, sub-broker, commodity 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) shall have to maintain a record of all the transactions, the nature and value of which has been prescribed in the Rules notified under the PMLA. Rajvi Stock Broking Limited Manual on Anti-Money Laundering Page 3 of 8

### **ANTI-MONEY LAUNDERING PROGRAM**

The objective of having an AML program is to have in place adequate policies and procedures that help to prevent money laundering activities. This policy aims to cover trading of the Two Roads Trading Private Limited. Such procedures would include the following:

For Two Roads Trading Private Limited  
  
Authorised Signatory/Director

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## THE REGULATORY / STATUTORY REQUIREMENTS

An officer of the company will be designated as "Principal Officer" who will ensure proper discharge of all legal requirements with respect to the same Mr. Ravi Parikh, Director responsible for

- Compliance of the provisions of the PMLA and AML guidelines
- Act as a central reference point and play an active role in identification & assessment of potential suspicious transactions.
- Ensure that Two Roads discharges its legal obligation to report suspicious transactions to concerned authorities.

The main aspect of this policy is the customer due diligence process which means:

- Obtaining sufficient information about the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted
- Verify the customer's identity using reliable independent source document, data or information
- Conduct on-going due diligence and scrutiny of the account/ client to ensure that the transaction conducted are consistent with the client's background/ financial status, its activities and risk profile.

The customer due diligence process includes three specific parameters:

1. Policy for acceptance of clients:

Each client should be met in person Complete KYC to be done for all clients No account to be opened in a fictitious/benami name or on an anonymous basis

2. Clients Identification Procedure (Risk profiling)

All clients to be classified as per the risk into 3 categories Low, Medium and High Risk

3. Suspicious Transaction identification and reporting

Any unusual activity compared to past transactions

Sudden activity in Dormant accounts

Sudden High volume / high value transactions

The principal officer shall report the nature, amount, date and all related details of any and all suspicious transactions recorded.

### 1. Client Identification

Before opening any Trading account with us, the following measures shall be taken:

- In person verification of the client
- Identify beneficial ownership and control, i.e., determine the persons who beneficially own / control the account.

- Collect information about client's background, occupation and also check the name of the introducer.
- Collect and verify all original documents from the client.
- Collect a certified copy of valid documents showing details of his permanent address, current address, PAN, nature of his occupation, financial status and also a recent photograph.
- For clients trading in F&O segment, documentary proof of his financial details will be collected.
- In case of Corporate client, collect copies of certificate of incorporation, Memorandum of association and other documents as required by SEBI
- In case of Corporate entity client, collect adequate information of the persons authorised to deal on behalf of the company. The client shall be interviewed personally regarding the purpose of opening the account i.e., whether short term trading or long term investment. Prior experience in stock market Introducer details

## **2. KYC updating process:**

All corporate clients must submit annual report every year. In case of individual clients, Client Master details shall be sent to all clients, who will confirm either that the details are updated or shall be advised to submit details if required. He shall also specify his present occupation and financial income details per annum in the same declaration.

The information should be adequate enough to satisfy competent authorities (regulatory/ enforcement authorities) in future that due diligence was observed by us in compliance with the Guidelines.

Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the principal officer.

Further, we should also maintain continuous familiarity and follow-up with the client where inconsistencies in the information provided are noted. The account will not be opened where we are unable to apply the above KYC policies, e.g., non co-operation of the client in providing full information etc.

## **3. Client Categorisation:**

Each client will be marked into 3 categories, High Risk, Medium Risk and Low Risk from the point of view of the anti money laundering laws. The categorization will be made based on the following parameters/ factors of risk perception:

- a) High Net worth Clients
- b) Trusts/ NGOs / Charities receiving donations
- c) Companies having close family shareholdings

(The above are considered of High Risk as per SEBI guidelines)

Such clients include the following-

- i. Non resident clients
- ii. High net-worth clients,
- iii. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations
- iv. Companies having close family shareholdings or beneficial ownership.
- v. Politically Exposed Persons (PEP) 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 norms applicable to PEP as contained in the subsequent para 5.5 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs.
- vi. Companies offering foreign exchange offerings
- vii. Clients in high risk countries where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, countries active in narcotics production, countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, countries against which government sanctions are applied, countries reputed to be any of the following – Havens/ sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent. While dealing with clients in high risk countries where the existence/effectiveness of money laundering control is suspect, intermediaries apart from being guided by the Financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website ([www.fatf-gafi.org](http://www.fatf-gafi.org)), shall also independently access and consider other publicly available information.
- viii. Non face to face client
- ix. Clients with dubious reputation as per public information available etc. The above mentioned list is only illustrative and the intermediary shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

The other parameters are nature of business activity, trading turnover, manner of making payment etc. Provision will be made in the back office software for noting categorization of each client. The high-risk client will require regular KYC update.

The clients will be placed under low, medium and high-risk category based on their turnover per day. Corporates / HNIs having respectable social and financial standing, Clients who make payment on time and take delivery of shares can be considered as Low Risk clients. Intra-day clients or speculative clients whose turnover is not in line with the Financials declared are considered as Medium Risk clients. Clients doing large activity in dormant account, trading on a regular basis in illiquid scrips in large volume and

quantity, those who have defaulted in the past and have suspicious background are to be considered as High risk clients.

**4. Maintenance of records of transactions / Information to be preserved / Maintenance and preservation of records / Cash and Suspicious transactions reporting to Financial Intelligence Unit-India (FIU-IND)**

Government of India, Ministry of Finance, Department of Revenue, vide its notification dated July 1, 2005 in the Gazette of India, has notified the Rules under the PMLA Act (refer Annexure 4). In terms of the Rules (refer Annexure 5), the provisions of PMLA Act, 2002 came into effect from July 1, 2005. Section 12 of the PMLA, 2002 casts certain obligations on financial institutions in regard to preservation and reporting of customer account information.

**Maintenance of records of transactions**

Two Roads shall have a system of maintaining proper record of all transactions including records of all transactions prescribed under Rule 3 of the Rules, as mentioned below: KYC/AML Policy

- (a) all cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency;
- (b) all series of cash transactions integrally connected to each other which have been valued below Rupees Ten Lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds Rupees Ten Lakh;
- (c) all transactions involving receipts by non-profit organisations of value more than rupees ten lakh, or its equivalent in foreign currency;

**Information to be preserved**

Two Roads shall maintain the following information in respect of transactions referred to in Rule 3 of the Rules including all necessary information specified by the regulator to permit reconstruction of individual transactions in respect of transactions referred to in Rule 3 of the Rules:

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

**Maintenance and Preservation of records**

Two Roads shall maintain the records of all transactions including the records containing information in respect of transactions referred to in Rule 3 above. Two Roads shall take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, Two Roads shall maintain for such number of years as would be required under the PMLA 2002 and rules made thereunder from the date of transaction between Two Roads and the client, all

necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity.

Two Roads shall ensure that records pertaining to the identification of the customer and his address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, card, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved for such number of years as would be required under the PMLA 2002 and rules made thereunder after the business relationship is ended. The KYC/AML Policy identification records and transaction data should be made available to the competent authorities upon request.

#### **5. Monitoring of Transaction and Reporting to Financial Intelligence Unit-India**

In case of any account wherein alerts are observed on a regular basis, the risk categorization would be increased based on the consensus of the AML monitoring team and the compliance officer. Such a review would be done at least once every month.

Special attention is required for all complex, unusually large transactions / patterns which appear to have no economic purpose. The background including all documents, office records and clarifications pertaining to such transactions and their purpose will be-examined carefully and findings will be recorded. Such findings, records and related documents would be made available to auditors and also to SEBI/FMC/Stock Exchanges/FIU-IND/Other relevant authorities, during audit, inspection or as KYC/AML Policy and when required. These records to be preserved for such period of time as required under PMLA 2002 or any rules made thereafter.

It would be ensured that record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and / or rules made thereunder and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate law authority.

Further the accounts or financial assets shall be frozen for any particular client in case so required by any regulatory authority upon receiving a notice for the same.

In terms of the Rules, Two Roads shall report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

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

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

#### **Suspicious Transaction Reports (STR)**

- (i) The Suspicious Transaction Report (STR) shall be furnished within 7 days of arriving at conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion once a suspicious transaction report

is received from a branch or any other office. Such report shall be made available to the competent authorities on request.

- (ii) While determining suspicious transactions, Two Roads shall be guided by definition of suspicious transaction contained in the Rules as amended from time to time.
- (iii) An indicative list of suspicious activities contained is provided along with this policy.
- (iv) While ensuring that there is no tipping off to the customer at any level, Two Roads may put restrictions on operations in the accounts where an STR has been made.

#### **6. Suspended Entities:**

SEBI and other authorities suspend or debar persons / entities from participating in securities market on several instances. We as a Broker are required to ensure that such persons do not trade through us.

We shall lay down systems for identifying transactions which is not in consonance with the financial status declared/ shown by the client. Also, unusual activities compared to past transactions, sudden activity in dormant accounts, activity inconsistent from declared business activity, should be traced. This shall require appropriate changes in our back office software.

Systems shall be put in place for identifying transactions likely to be market manipulation, and which appears to be insider trading and also any transaction which seems to have no bonafide intention. Regular communications by means of mailers, SMS, Email are sent to clients at various intervals requesting them to update their latest financial and KYC details available with us.

Role of Compliance Team & Internal Audit:

The compliance team will play an important role in ensuring compliance of the above policies and procedures. The account opening team will exercise adequate due diligence as stated above. There will be periodic checking by the Principal Officer and the same report will be properly filed. There is a system of concurrent audit, which will also include ensuring compliance of the above. Deviation or any inadequacy if any will be noted in the report for necessary action by the management. The areas to be specifically checked will be:

- a) Due diligence in KYC norms.
- b) Generation of exception reports
- c) Trading in dormant client codes
- d) Level of awareness of staffs

#### **5. Illiquid Securities:**

The Exchanges specifies a list of Illiquid Securities where higher due diligence is to be exercised by the Brokers. The trade pattern in such scripts by our clients is monitored. In case of high volume in any script compared to Exchange volume, the client will be asked to submit clarification.

#### **6. Employee Training**

We have policy for ongoing employee training programme so that the total staffs of our company completely aware of the provisions of AML and CFT procedures and amendments thereof. These training programmes are totally focused for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new customers as it is very crucial that all those concerned fully understand the rationale behind these guidelines, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements, if there is any lapse on the part of any staffs of the company. A register of attendance of participation in such Education/ training program is maintained for the employees, kept secured with the Compliance Department. As resolved Two Roads shall take adequate measures as per its internal policy to prevent money laundering and shall also put in place a frame work for PMLA policy. The policies and procedures as mentioned above shall not be final as it may adopt additional measures to safeguard its interest with respect to activities associated with PMLA.

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Authorised Signatory/Director

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