

ANNEXURE I - PART A

IMPORTANT PROVISIONS OF THE PREVENTION OF MONEY LAUNDERING ACT (PMLA) AND THE RULES MADE THEREUNDER:

Section 3 - Offence of Money-Laundering

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.

'proceeds of crime' is defined as: any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence (laid down in the PMLA) or the value of such property.

Section 4 - Punishment for Money - Laundering

Whoever commits the offence of money-laundering shall be punishable with rigorous imprisonment for a term which shall not be less than three years but which may extend to seven years (ten years in case of certain specific offences) and shall also be liable to fine which may extend to five lakh rupees.

Section 12 - Banking companies, Financial Institutions and intermediaries to maintain records

Every banking company, financial institution and intermediary shall

- a) maintain a record of all transactions, the nature and value of which may be prescribed, whether such transactions comprise of a single transaction or a series of transactions integrally connected to each other and where such series of transactions take place within a month;
- b) furnish information of transactions referred to in clause (a) to the Director within such time as may be prescribed;
- c) verify and maintain the records of the identify of all its clients, in such manner as may be prescribed.

Provided that where the principal officer of a banking company or financial institution or intermediary, as the case may be, has reason to believe that a single transaction or series of transactions integrally connected to each other have been valued below the prescribed value so as to defeat the provisions of this section, such officer shall furnish information in respect of such transactions to the Director within the prescribed time.

The records referred to in sub-section (1) shall be maintained for a period of five years from the date of cessation of the transactions between the clients and the banking company or financial institution or intermediary, as the case may be.

Section 13 - Powers of Director to Impose Fine

- (1) The Director may either of his own motion, or on an application made by an authority, officer or person call for records referred to in sub-section (1) of Section 12 and may make such inquiry or cause such inquiry to be made, as he thinks fit.
- (2) If the Director, in the course of any inquiry, finds that a banking company, financial institution or any intermediary or any of its officers has failed to comply with the provisions contained in Section 12, then, without prejudice to any other action that may be taken under any other provisions of this Act, he may, by an order, levy a fine on such banking company or financial institution or intermediary which shall not be less than ten thousand rupees but may extend to one lac rupees for each failure.
- (3) The Director shall forward a copy of the order passed under sub-section (2) to every banking company, financial institution or intermediary or person who is a party to the proceedings under the sub-section.

Tata Securities Limited

ANNEXURE I- PART B

RULES MADE UNDER THE PREVENTION OF MONEY LAUNDERING ACT:

- (Prevention of Money Laundering Maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time of furnishing information and verification and maintenance of records of the identify of the clients of the banking companies, financial institutions and intermediaries) Rules, 2004 notified on July 1, 2005.
- Master Circular on guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) / Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002 and the Rules framed thereunder issued vide SEBI circular dated July 4, 2018, as amended from time to time.

Definitions:

“Client” means a person that engages in a financial transaction or activity with a banking company, or financial institution or intermediary and includes a person on whose behalf the person that engages in the transaction or activity, is acting.

“Officially valid document” means the passport, the driving license, the Permanent Account Number (PAN) card, the Voter’s identity card issued by the Election Commission of India or any other document as may be required by the banking company, or financial institution intermediary.

“Suspicious transaction” means a transaction whether or not made in cash which, to a person acting in good faith

- i) gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- ii) appears to be made in circumstances of unusual or unjustified complexity, or
- iii) appears to have no economic rationale or bonafide purpose or
- iv) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

Rule 3 - Maintenance of records:

Every banking company or financial institution or intermediary, as the case may be, shall maintain a record of

- (A) all cash transactions of the value of more than Rs.10 lakhs or its equivalent in foreign currency.
- (B) all series of cash transactions integrally connected to each other which have been valued below Rs.10 lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month.
- (C) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or document has taken place facilitating the transactions
- (D) all suspicious transactions whether or not made in cash and by way of

Tata Securities Limited

- (i) deposits and credits, withdrawals into or from any accounts in whatsoever name they are referred to in any currency maintained by way of
 - cheques including third party cheques, pay orders, demand drafts, cashiers cheques or any other instruments or payment of money including electronic receipts or credits and electronic payments or debits or
 - travellers cheque, or
 - transfer from one account within the same banking company, financial institution and intermediary, as the case may be, including from or to nostro and vostro accounts, or
 - any other mode in whatsoever name it is referred to;
- (ii) credits or debits into or from any non-monetary accounts such as de-mat accounts, security account in any currency maintained by the banking company, financial institution and intermediary, as the case may be;
- (iii) money transfer or remittances in favour of own clients or non clients from India or abroad and to third party beneficiaries in India or abroad including transactions on its own account in any currency by way of the following – pay orders, or cashier cheques, or demand drafts, or telegraphic or wire transfer or electronic remittances or transfers, or internet transfers, or automated clearing house remittances or lock box driven transfers or remittances, or remittances for credit or loading to electronic cards, or any other mode or money transfer by whatsoever name it is called.
- (iv) loans and advances including credit or loan substitutes, investments and contingent liability by way of
 - (a) subscription to debt instruments such as commercial paper, certificate of deposits, preferential shares, debentures, securitized participation, inter bank participation or any other investments in securities or the like in whatever form and name it is referred to, or
 - (b) purchase and negotiation of bills, cheques and other instruments, or
 - (c) foreign exchange contracts, currency, interest rate and commodity and any other derivative instrument in whatsoever name it is called, or
 - (d) letters of credit, standby letters of credit, guarantees, comfort letters, solvency certificates and any other instrument for settlement and/or credit support;
- (v) collection services in any currency by way of collection of bills, cheques, instruments or any other mode of collection in whatsoever name it is referred to.

Rule 4 - Records containing information:

The records referred to in rule 3 shall contain the following information
the nature of transactions

- a) the amount of the transaction and the currency in which it was denominated
- b) the date on which the transaction was conducted and the parties to the transaction.

Tata Securities Limited

Rule 5 - Procedure and manner of maintaining information:

- 1) Every banking company, financial institution and intermediary as the case may be, shall maintain information in respect of transactions with its client referred to in rule 3 in hard and soft copies in accordance with the procedure and manner as may be specified by the RBI or the SEBI or the IRDA, as the case may be, from time to time.
- 2) Every banking company, financial institution and intermediary, shall evolve an internal mechanism for maintaining such information in such form and at such intervals as may be specified by the RBI or the SEBI or IRDA ,as the case may be, from time to time
- 3) It shall be the duty of every banking company, financial institution and intermediary as the case may be, to observe the procedure and manner of maintaining information as specified by the RBI or the SEBI or the IRDA, as the case may be under sub-rule (1)

Rule 6 - Retention of records:

The records referred to in rule 3 shall be maintained for a period of five years from the date of cessation of the transactions between the client and the banking company, financial institution or intermediary, as the case may be.

Rule 9 - Verification of the records of the identity of the clients:

- (1) Every banking company, financial institution and intermediary, as the case may be, shall at the time of opening of an account or executing any transaction with it, verify and maintain the record of identity and current address or addresses including permanent address or addresses of the client, the nature of business of the client and his financial status:
Provided that where it is not possible to verify the identity of the client at the time of opening an account or executing any transaction, the banking company, financial institution and intermediary as the case may be shall verify the identity of the client within a reasonable time after the account has been opened or the transaction has been executed.
- (2) Where the client is an individual, he shall for the purpose of sub-rule (1) submit to the banking company or the financial institution or the intermediary as the case may be, one certified copy of an officially valid document containing details of his permanent address or addresses, current address or addresses, and one copy of his recent photograph and such other documents including in respect of the nature of business and financial status of the client as may be required by the banking company or the financial institution or the intermediary, as the case may be.
- (3) Where the client is a company, it shall for the purposes of sub-rule (1) submit to the banking company or the financial institution or the intermediary, as the case may be, one certified copy of the following documents;
 - i) Certificate of incorporation

Tata Securities Limited

- ii) Memorandum and Articles of Association
 - iii) a resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf, and
 - iv) an officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.
- (4) Where the client is a partnership firm, it shall for the purposes of sub-rule (1) submit to the banking company or the financial institution or the intermediary, one certified copy of the following documents
- i) registration certificate
 - ii) partnership deed and
 - iii) an officially valid document in respect of the person holding an attorney to transact on its behalf
- (5) where the client is a trust, it shall, for the purpose of sub-rule (1) submit to the banking company, or the financial institution or the intermediary, one certified copy of the following documents;
- i) registration certificate
 - ii) trust deed and
 - iii) an officially valid document in respect of the person holding an attorney to transact on its behalf.
- (6) Where the client is an ***unincorporated association or a body of individuals***, it shall submit to the banking company, or the financial institution or the intermediary one certified copy of the following documents:
- (i) resolution of the managing body of such association or body of individuals;
 - (ii) power of attorney granted to him to transact on its behalf;
 - (iii) an officially valid document in respect of the person holding an attorney to transact on its behalf; and
 - (iv) such information as may be required by the banking company or the financial institution or the intermediary to collectively establish the legal existence of such an association or body of individuals.
- (7) Every Banking company, financial institution and intermediary as the case may be shall formulate and implement a client identification programme, which shall incorporate the requirements of the foregoing sub rules of this rule, and such other additional requirements that it considers appropriate to enable it to determine the true identify of its clients. A copy of the client identification programme shall be forwarded to the Director.

Rule 10 – Maintenance of the records of the identity of clients:

- (1) Every Banking company or financial institution or intermediary, as the case may be shall maintain the records of the identity of its clients.
- (2) The records of the identify of clients shall be maintained in hard and soft copies in a manner as may be specified by the RBI or SEBI or IRDA, as the case may be, from time to time.

- (3) The records of the identity of clients shall be maintained for a period of five years from the date of cessation of the transactions between the client and the banking company or financial institution or intermediary, as the case may be.

ANNEXURE I- PART C

IMPORTANT GUIDELINES ISSUED BY SEBI

Guiding Principles: The Guidelines provides relevant measures and procedures for preventing money laundering and terrorist financing.

- Each intermediary should consider carefully the specific nature of its business, organizational structure, type of customer and transaction etc. to satisfy itself that the measures taken by them are adequate and appropriate to follow the spirit of the suggested measures and the requirements as laid down in the Act.
- Senior management of a registered intermediary should be fully committed to establishing appropriate policies and procedures for the prevention of money laundering and terrorist financing and ensuring their effectiveness and compliance with the relevant legal and regulatory requirements.

The registered intermediaries should

- Issue a statement of policies and procedures, on a group basis where applicable, for dealing with money laundering and terrorist financing reflecting the current statutory and regulatory requirements.
- Establish effective internal procedures that serve to prevent and impede money laundering and terrorist financing and global measures to be taken to combat drug trafficking, terrorism and other organized serious crimes
- Ensure that the content of these guidelines are understood by all staff members
- Regularly review the policies and procedures on prevention of money laundering and terrorist financing to ensure their effectiveness. Further in order to ensure effectiveness of policies and procedures, the person doing such a review should be different from the one who has framed such policies and procedures;
- Adopt customer acceptance policies and procedures which are sensitive to the risk of money laundering and terrorist financing.
- Undertake customer due diligence measures to an extent that is sensitive to the risk of money laundering and terrorist financing depending on the type of customer, business relationship or transaction
- Have a system in place for identifying, monitoring and reporting suspected Money Laundering and Terrorist Financing transactions to the law enforcement authorities and
- Develop staff members' awareness and vigilance to guard against money laundering and terrorist financing.

Written Anti Money Laundering Procedures:

Each registered intermediary should adopt written procedures to implement the anti money laundering provisions as envisaged under the Act. Such procedures should include client due diligence process covering policy for acceptance of clients,

Tata Securities Limited

procedures for identifying the clients, transaction monitoring and reporting especially suspicious transactions reporting.

ANNEXURE II

POLICIES AND PROCEDURES FOR IMPLEMENTATION OF PMLA

1) Policy objectives

- To prevent criminal elements from using our business for money laundering activities or the funding of terrorist or criminal activities.
- To understand the customers and their financial dealings better, which in turn would help us manage the risk prudently
- To put in place appropriate controls for detection and reporting suspicious transactions in accordance with applicable laws/ laid down procedures
- To comply with applicable laws and regulatory guidelines.

2) Scope: These policies and procedures will apply to the operation of the Company in respect of businesses undertaken by it in its capacity of an intermediary registered with SEBI i.e. stock-broker and depository participant and are to be read in conjunction with the existing guidelines.

Any references in this policy to clients/customers are to be construed according to the definition of "Client" as per PMLA rules on pg.5 of this policy. The terms 'client' and 'customer' have been used interchangeably herein.

3) Key Elements of the Policy:

3.1 No cash transactions:

The company will not enter into any cash transactions with clients for any reason whatsoever.

3.2 Customer Due Diligence ("CDD") process:

SEBI has issued guidelines specifying the documents required to be verified and submitted for opening of accounts of the clients in respect of stock broking and depository participant operations. These Guidelines are also reiterated by BSE, NSE, CDSL and NSDL through their circulars which are quite exhaustive. These requirements have been adhered to.

In short, while opening accounts of individuals, the original documents relating to proof of identity, proof of residence, PAN card are obtained and verified by an official of the Company. Moreover 'in person verification' of the client is carried out by an official of the Company and this fact is recorded in the application form. While opening of accounts in respect of entities other than individuals- documents like Memorandum of Association, Articles of Association, Board Resolution, photographs of authorized signatories, etc. are obtained.

Tata Securities Limited

In addition to this, PAN card details are verified on the Income Tax website. Websites of SEBI (www.sebi.gov.in) and Watch out Investors (www.watchoutinvestors.com) are also checked, to verify whether the person/entity is prohibited from trading in securities.

The CDD measures comprise the following:

- Obtaining sufficient information in order to identify persons who beneficially own or control the securities account. Whenever it is apparent that the securities acquired or maintained through an account are beneficially owned by a party other than the client, that party shall be identified using client identification and verification procedures. The beneficial owner is the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement.
- Verify the client's identity using reliable, independent source documents, data or information;
- Identify beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted;
- Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to the above;
- Understand the ownership and control structure of the client; Conduct ongoing due diligence and scrutiny, i.e. Perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds; and
- Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

3.3 Customer Acceptance Policy:

- 3.3.1 It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of business relationship or transaction etc. As such, the Company shall apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that the Company shall adopt an enhanced client due diligence process for higher risk categories of clients. Conversely, a simplified client due diligence process may be adopted for lower risk categories of clients. In line with the risk-based approach, the type and amount of identification information

and documents that Company shall obtain necessarily depend on the risk category of a particular client.

Further, low risk provisions shall 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.

- 3.3.2 The Company shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its 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 and <http://www.un.org/sc/committees/1988/list.shtml>).

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.

3.3.3 Clients of Special Category (CSC):

Such clients include the following

- a. Non resident clients
- b. High net worth clients,
- c. Trust, Charities, NGOs and organizations receiving donations
- d. Companies having close family shareholdings or beneficial ownership
- e. 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.
- f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close

Tata Securities Limited

advisors and companies in which such individuals have interest or significant influence)

- g. Companies offering foreign exchange offerings
- h. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- i. Non face to face clients
- j. Clients with dubious reputation as per public information available etc.

The above mentioned list is only illustrative and the members should exercise independent judgment to ascertain whether new clients should be classified as CSC or not

Accounts which belong to the “Clients of Special Category” will be flagged and precaution will be taken about their operation.

- 3.3.4 The profile of clients has to be updated regularly.
- 3.3.5 Information about the income range of the client is obtained on the specified column in the application form. This information should be subsequently used for monitoring whether the transactions of the clients are within the declared means and if the value of the transactions is increasing, the client should be asked to disclose the increasing sources.
- 3.3.6 A thorough assessment should be carried out to ascertain whether the client is dealing with us on his own behalf or someone else is the beneficial owner. If there are doubts, before acceptance of the clients, thorough due diligence should be carried out to establish the genuineness of the claims of the clients. Secrecy laws shall not be allowed as a reason for refusal to disclose the true identity of the client.
- 3.3.7 No account should be opened in a fictitious name/benami name or on an anonymous basis.
- 3.3.8 No client should be accepted where it is not possible to ascertain the identity of the client, or the information provided is suspected to be

Tata Securities Limited

non-genuine, or if there is perceived non-cooperation of the client in providing full and complete information.

- 3.3.9 If any of the above are encountered when dealing with an existing client, all business with the client must be suspended and a prompt report must be made to the Compliance Officer to enable him/her to file a suspicious activity report with the relevant authorities.
- 3.3.10 In case of clients who want to act through agent under Power of Attorney, a notarized power of attorney issued in favor of parties other than TSL, should be obtained. Original of the POA should be verified. Care should be taken to ensure the genuineness of the client.
- 3.3.11 While accepting FIs/sub accounts as clients, reports in market / public knowledge regarding their investment behaviour (for e.g. whether they allow their investment vehicle to be used by others; whether they issue underlying participatory notes) should be considered.
- 3.3.12 Know your Client forms prescribed by SEBI/stock exchanges/ Depositories, duly signed by the client should be obtained before acceptance of the clients.

3.4 Customer Identification Policy:

- 3.4.1 Before opening the accounts, there should be personal interaction with the client.
- 3.4.2 Before opening the accounts in case of companies any one of the following viz. main promoter / Managing Director / whole time director / key management person and in the case of partnership any one of the active partners should be met in person.
- 3.4.3 Caution is to be exercised when identifying companies which appear to be 'shell companies' or 'front companies'. Shell/front companies are legal entities, which have no business substance in their own right but through which financial transactions may be conducted.
- 3.4.4 In case of clients acting through Power of Attorneys, the Principal and Agent should come in person for the first time. Photos of both are to be obtained along with signatures on the photos. The KYC form, Member Constituent Agreement and the Risk Disclosure Document must compulsorily be signed by the client himself and not by the POA holder.
- 3.4.5 Original of valid, un-expired Photo identity of individual/promoter/director to be verified by our official for identifying the client. Signature of the persons should be obtained on the photos. Photocopy of the proof should be taken by our

Tata Securities Limited

official, who should also certify thereon about having verified it with the unexpired original.

- 3.4.6 In case of individuals, proof of identify (as prescribed by SEBI) should be established by way of any of the following documents (un-expired original document shall be verified)
- PAN Card
 - Passport
 - Voter ID
 - Driving license
 - UID (Aadhar Card)

PAN card details must be checked on the Income Tax website for all the cases where PAN card is obtained as proof of identity.

Photocopy of the proof should be taken by our official who should also certify thereon about having verified it with the unexpired original.

- 3.4.7 Any of the following address proof should be obtained (un-expired Original should be verified)
- Passport
 - Voter ID
 - Driving license
 - Bank pass book
 - UID (Aadhar Card)
 - Latest Rent agreement
 - Ration card
 - Latest Flat maintenance Bill
 - Latest Telephone Bill
 - Latest Electricity Bill
 - Insurance policy

Photocopy of the proof should be taken by our official who should also certify therein about having verified it with the unexpired original.

- 3.4.8 In the case of joint account, the above procedure should be carried out for all the persons who hold the joint account.

- 3.4.9 Where the client is a company, certified copy of the following documents shall be obtained
- a) certificate of incorporation
 - b) Memorandum and Articles of Association
 - c) Copies of the balance sheet for the last 2 financial years (Copies of annual balance sheet to be submitted every year)
 - d) Copies of latest shareholding pattern, including list of all those holding more that 5% in the share capital of the

company, duly certified by the company secretary/whole time director/MD (copy of updated shareholding pattern to be submitted every year)

- e) Copy of resolution from the Board of Directors approving participation in equity / derivatives / debt trading and naming authorized persons for dealing in securities and power of attorney granted to its managers, officers or employees to transact on its behalf, and
- f) Photographs of whole time directors, individual promoters holding 5% or more, either directly or indirectly in the shareholding of the company and of persons authorized to deal in securities.
- g) Identification documents (identity and address) for the above as applicable to individuals in respect of managers, officers or employees holding an attorney to transact on its behalf.

3.4.10 for clients other than individuals or trusts:

Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the authorised official of 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:

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

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

- i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;
 - ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
 - iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.
- b. In cases where there exists doubt under clause 4 (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.

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

Tata Securities Limited

- c. Where no natural person is identified under clauses 4 (a) or 4 (b) above, the identity of the relevant natural person who holds the position of senior managing official.
- 3.4.11. For client which is a trust:
Where the client is a trust, the authorised official of the Company shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership.
- 3.4.12. Exemption in case of listed companies:
Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.
- 3.4.13. Care should be taken if the persons mentioned in the Memorandum and Articles of Association as promoters/first directors are different from the current promoters / directors. If the name/address of registered office has been changed, reasonable enquires should be made.
- 3.4.14. Proof of address of the registered office of the company, being one of the relevant documents as in the case of individuals should also be taken
- 3.4.15. where the client is a partnership firm, certified copy of the following documents
- a) registration certificate
 - b) partnership deed and
 - c) Identification documents (identity and address) as applicable to individuals in respect of partners, managers, officers or employees holding a Power of Attorney to transact on its behalf.
 - d) Proof of address of the firm on the basis of relevant documents as applicable to individuals.
- 3.4.16. where the client is a trust, certified copy of the following documents;
- i) registration certificate
 - ii) trust deed and
 - iii) proof of identity and address of the trustees as applicable to the individuals.
- 3.4.17. In the case of broking transactions, care should be taken to ensure that the orders are placed by the client and not by others on behalf

of the client. If the client proposes to authorize another person to place orders on his behalf, a properly executed Power of Attorney or Letter of Authority should be obtained and the person who will be placing orders shall also be identified using the above procedure. Periodical statement of accounts should be sent to the client (and not Power of Attorney holder) at his address mentioning that if he does not respond within 30 days of date of receipt of the letter, the contents shall be taken as approved.

- 3.4.18 DP services should not be offered on a standalone basis (i.e. without broking relationship)
- 3.4.19 After opening broking / DP accounts, a letter of thanks should be sent to the client, at the recorded address. This will serve the dual purpose of thanking them for opening the account and for verification of genuineness of address provided by the account holder. Further transactions should not be allowed if the mail is returned. The undelivered envelope should be retained with the KYC papers for further inquiries, if necessary.

3.5 Reliance on third party for carrying out Client Due Diligence (CDD)

The 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.

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. Further, the Company shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

4. Monitoring of Transactions

- 4.1 All the client accounts are to be monitored at least once every six months and any exceptions need to be reported to the management and compliance department/ Principal Officer.
- 4.2 If any transaction appears to be suspicious it is to be reported to the Compliance Department/ Principal Officer immediately.
- 4.3 For identifying the suspicious transactions, the following illustrative questions may be considered:
- Is the customer willing to accept uneconomic terms without apparent reason?

- Is the transaction inconsistent with legitimate business activity?
- Is the transaction inconsistent with the normal pattern of the customer's investment activity?
- Is the transaction inconsistent with the customer's account-opening documents?
- Has the customer requested that the transaction be cleared in a way that is inconsistent with normal practice?
- Is the client financially capable of the transactions he has asked for?

4.4 Symptoms of Suspicious transactions:

An indicative list of suspicious transactions is as follows:

- The customer exhibits unusual concern about the Company's compliance with government reporting requirements and the Company's AML policies (particularly concerning his or her identity, type of business and assets), or is reluctant or refuses to reveal any information concerning business activities, or furnishes unusual or suspicious identification or business documents.
- The customer wishes to engage in transactions that lack business sense or apparent investment strategy, or are inconsistent with the customer's stated business or investment strategy.
- The information provided by the customer that identifies a legitimate source for funds is false, misleading, or substantially incorrect.
- Upon request, the customer refuses to identify or fails to indicate any legitimate source for his or her funds and other assets.
- The customer (or a person publicly associated with the customer) has a questionable background or is the subject of news reports indicating possible criminal, civil, or regulatory violations.
- The customer exhibits a lack of concern regarding risks, commissions, or other transaction costs.
- The customer appears to be acting as an agent for an undisclosed principal, but declines or is reluctant, without legitimate commercial reasons, to provide information or is otherwise evasive regarding that person or entity.
- The customer has difficulty describing the nature of his or her business or lacks general knowledge of his or her industry.
- The customer attempts to or insists on dealing only in cash, or asks for exemptions from the Company's policies relating to non-acceptance of cash.
- The customer engages in transactions involving cash or cash equivalents or other monetary instruments that appear to be structured to avoid the Rs.10,00,000 government reporting requirements, especially if the cash or monetary instruments are in an amount just below reporting or recording thresholds.
- For no apparent reason, the customer insists for multiple accounts under a single name or multiple names, with a large number of inter-account or third-party transfers.

Tata Securities Limited

- The customer requests that a transaction be processed to avoid the firm's normal documentation requirements.
- The customer, for no apparent reason engages in transactions involving certain types of securities, such as Z group stocks, which although legitimate, have been used in connection with fraudulent schemes and money laundering activity. (Such transactions may warrant further due diligence to ensure the legitimacy of the customer's activity.)
- The customer's account shows an unexplained high level of account activity
- The customer maintains multiple accounts, or maintains accounts in the names of family members or corporate entities, for no apparent purpose.
- The customer's account has inflows of funds or other assets well beyond the known income or resources of the customer.

4.5 Caution should be exercised if broking/DP accounts have been in-operative for more than 6 months and activity resumes thereafter.

4.5 Care should also be taken if the clients make high value payments (Rs. 10 lakhs and above) from bank accounts not declared to us in the KYC forms, or when they make payments through Demand Drafts and not cheques drawn on their declared bank accounts. The details of such transactions should be noted in a separate register.

4.6 Caution should be exercised if there any high quantity/value off-market transactions in DP accounts. Caution should also be exercised if large credits in a broking account are advised to be transferred to any broking account with us.

4.7 The compliance department shall undertake random checks as to the nature of transactions and whether they are suspicious transactions.

5. Maintenance of records

5.1 The Securities Contracts Regulation Act (SCRA) and SEBI (Stock brokers and Sub-brokers) Regulations provide for maintenance of records for stock broking operations, for a period of 5 years. The records and documents as a Depository Participant shall be preserved for a minimum period of eight years in terms of regulation 66(5) of the SEBI (Depositories and Participants) Regulations, 2018.

(i) The following records need to be maintained for stock broking activity:

- a) Register of transactions (Sauda book)
- b) Client's ledger
- c) General Ledger
- d) Journals
- e) Cash book
- f) Bank pass-book

Tata Securities Limited

- g) Documents register showing full particulars of shares and securities received and delivered and the statement of account and other records relating to receipt and delivery of securities.
 - h) Member's contract books showing details of all contracts entered into by him with other members of the same exchange or counterfoils or duplicates of memos of confirmation issued to such other members.
 - i) Counterfoils or duplicates of contract notes issued to clients.
 - j) Written consent of clients in respect of contracts entered into as principals.
 - k) Margin deposit book
 - l) Register of accounts of sub-brokers
 - m) An agreement with a sub-broker specifying the scope of authority, and responsibilities of the Stock-broker and such Sub-broker;
 - n) An agreement with the sub-broker and with the client of the sub-broker to establish privity of contract and the client of the sub-broker.
- (ii) Records to be maintained for a minimum period of eight years for depository participant business in terms of SEBI (Depositories and Participants) Regulations, 2018:
- (a) records of all the transactions entered into with a depository and with a beneficial owner;
 - (b) details of securities dematerialised, rematerialised on behalf of beneficial owners with whom it has entered into an agreement;
 - (c) records of instructions received from beneficial owners and statements of account provided to beneficial owners; and
 - (d) records of approval, notice, entry and cancellation of pledge or hypothecation, as the case may be. (iii) Should there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction, the Company shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:
 - a) the beneficial owner of the account;
 - b) the volume of the funds flowing through the account; and
 - c) for selected transactions:
 - i. the origin of the funds

- ii. the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
- iii. the identity of the person undertaking the transaction;
- iv. the destination of the funds;
- v. the form of instruction and authority

5.2 All the above listed records and records relating to customer identification, accounts files and business correspondence are to be maintained in hard and soft form on a regular basis and for a period of five years after date of cessation of the transactions between the client and the Company.

5.3 The records are to contain the following information:

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

5.4 In the case of transactions where any investigations by any authority have been commenced and in the case of transactions, which have been the subject of suspicious transactions reporting, all the records shall be maintained till the authority informs of closure of the case.

6. Principal Officer

The company has designated the Compliance Officer as the Principal Officer who shall be responsible for implementation and compliance of this policy. His illustrative duties will be as follows:

- Monitoring the implementation of Anti Money Laundering Policy
- Reporting of transactions and sharing of information as required under the law. Making a note of Suspicious Transactions and reporting to Financial Intelligence Unit (FIU-IND).
- Liaisoning with law enforcement agencies
- Ensuring submission of periodical reports to the Board of Directors.
- Providing clarifications to staff members of the provisions of the Act, rules, guidelines and the policy of the company.

7. Appointment of a Designated Director

In addition to the existing requirement of designation of a Principal Officer, the 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:

Tata Securities Limited

“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 Company to comply with any of its AML/CFT obligations.

The Company shall communicate the details of the Designated Director, such as, name, designation and address to the Office of the Director, FIU-IND.

7. Staff awareness and training

Staffs who deal directly with the public are the first point of contact for potential money launderers. Their efforts are therefore vital to the effective functioning of the reporting system for such transactions. Staff should keep themselves abreast of the practices to identify suspicious transactions and on the procedure to be adopted when a transaction is deemed to be suspicious. In short, employees must familiarize themselves with their customers' normal trading activities and usual market practices in order to recognize anomalous behavior. Suspicions concerning the source of assets or the nature of the transaction should not be ignored. It is the active responsibility of every person at the Company to seek to ensure that the Company's facilities are not being misused.

Staff should also not disclose to the customer concerned or to other third persons that the transaction is deemed suspicious or that investigative steps are being taken or that information may be transmitted to the authorities.

The importance of PMLA guidelines and the action required to be taken by the employees in respect of the functions performed by them is being included as a module during induction training or refresher course.

Tata Securities Limited

- **Procedure for freezing of funds, financial assets or economic resources or related services**

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (UAPA), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated August 27, 2009 detailing the procedure for the implementation of Section 51A of the UAPA.

Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism.

On receipt of the updated list of individuals/ entities subject to UN sanction measures (hereinafter referred to as 'list of designated individuals/ entities) from the Ministry of External Affairs'; SEBI will forward the same to stock exchanges, depositories and registered intermediaries for the following purposes:

i. To maintain updated designated lists in electronic form and run a check on the given parameters on a regular basis to verify whether individuals or entities listed in the schedule to the Order (referred to as designated individuals/entities) are holding any funds, financial assets or economic resources or related services held in the form of securities with them.

In the event, particulars of any of customer/s match the particulars of designated individuals/entities, the Compliance Officer shall immediately, not later than 24 hours from the time of finding out such customer, inform full particulars of the funds, financial assets or economic resources or related services held in the form of securities, held by such customer on its books to the Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No.011-23092569 and also convey over telephone on 011- 23092736.

iii. The compliance officer shall send the particulars of the communication mentioned in (ii) above through post/fax and through e-mail (sebi_uapa@sebi.gov.in) to the UAPA nodal officer of SEBI, Officer on Special Duty, Integrated Surveillance Department, Securities and Exchange Board of India, SEBI Bhavan, Plot No. C4-A, "G" Block, Bandra Kurla Complex, Bandra (E), Mumbai 400 051 as well as the UAPA nodal officer of the state/UT where the account is held, as the case may be, and to FIU-IND.

iv. In case the aforementioned details of any of the customers match the particulars of designated individuals/entities beyond doubt, the Compliance Officer would prevent designated persons from conducting financial transactions,

Tata Securities Limited

under intimation to Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No. 011-23092569 and also convey over telephone on 011- 23092736. The particulars apart from being sent by post should necessarily be conveyed through e-mail at jsis@nic.in. Stock exchanges, depositories and registered intermediaries shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered by paragraph (ii) above carried through or attempted, as per the prescribed format.

- **Freezing of financial assets:**

i. On receipt of the particulars as mentioned in paragraph 5(ii) above, IS-I Division of MHA would cause a verification to be conducted by the State Police and /or the Central Agencies so as to ensure that the individuals/ entities identified by the stock exchanges, depositories, registered intermediaries are the ones listed as designated individuals/entities and the funds, financial assets or economic resources or related services, reported by stock exchanges, depositories, registered intermediaries are held by the designated individuals/entities. This verification would be completed within a period not exceeding 5 working days from the date of receipt of such particulars.

ii. In case, the results of the verification indicate that the properties are owned by or held for the benefit of the designated individuals/entities, an order to freeze these assets under section 51A of the UAPA would be issued within 24 hours of such verification and conveyed electronically to the concerned depository under intimation to SEBI and FIU-IND.

iii. The order shall take place without prior notice to the designated individuals/entities.

- **Implementation of requests received from foreign countries under U.N. Securities Council Resolution 1373 of 2001.**

i. U.N. Security Council Resolution 1373 obligates countries to freeze without delay the funds or other assets of persons who commit, or attempt to commit, terrorist acts or participate in or facilitate the commission of terrorist acts; of entities or controlled directly or indirectly by such persons; and of persons and entities acting on behalf of, or at the direction of such persons and entities, including funds or other assets derived or generated from property owned or controlled, directly or indirectly, by such persons and associated persons and entities

ii. To give effect to the requests of foreign countries under U.N. Security Council Resolution 1373, the Ministry of External Affairs shall examine the requests made by the foreign countries and forward it electronically, with their comments, to the UAPA nodal officer for IS-I Division for freezing of funds or other assets. iii. The UAPA nodal officer of IS-I Division of MHA, shall cause the request to be examined, within five working days so as to satisfy itself that on the basis of applicable legal principles, the requested designation is supported by reasonable

grounds, or a reasonable basis, to suspect or believe that the proposed designee is a terrorist, one who finances terrorism or a terrorist organization, and upon his satisfaction, request would be electronically forwarded to the nodal officer in SEBI. The proposed designee, as mentioned above would be treated as designated individuals/entities. iv. Upon receipt of the requests from the UAPA nodal officer of IS-I Division, the list would be forwarded to stock exchanges, depositories and intermediaries and the procedure as enumerated at paragraphs 5 and 6 shall be followed.

v. The freezing orders shall take place without prior notice to the designated persons involved.

Procedure for unfreezing of funds, financial assets or economic resources or related services of individuals/entities inadvertently affected by the freezing mechanism upon verification that the person or entity is not a designated person

Any individual or entity, if it has evidence to prove that the freezing of funds, financial assets or economic resources or related services, owned/held by them has been inadvertently frozen, shall move an application giving the requisite evidence, in writing, to the concerned stock exchanges/depositories and registered intermediaries. The stock exchanges/depositories and registered intermediaries shall inform and forward a copy of the application together with full details of the asset frozen given by any individual or entity informing of the funds, financial assets or economic resources or related services have been frozen inadvertently, to the nodal officer of IS-I Division of MHA as per the contact details given in paragraph 5(ii) above within two working days. The Joint Secretary (IS-I), MHA, being the nodal officer for (IS-I) Division of MHA, shall cause such verification as may be required on the basis of the evidence furnished by the individual/entity and if he is satisfied, he shall pass an order, within fifteen working days, unfreezing the funds, financial assets or economic resources or related services, owned/held by such applicant under intimation to the concerned stock exchanges, depositories and registered intermediaries. However, if it is not possible for any reason to pass an order unfreezing the assets within fifteen working days, the nodal officer of IS-I Division shall inform the applicant.

Communication of Orders under section 51A of Unlawful Activities (Prevention) Act.

All Orders under section 51A of Unlawful Activities (Prevention) Act, relating to funds, financial assets or economic resources or related services, would be communicated to stock exchanges, depositories and intermediaries through SEBI.

- **Investors Education**

Implementation of AML/CFT measures requires intermediaries 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

Tata Securities Limited

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 intermediaries to sensitize their clients about these requirements as the ones emanating from AML and CFT framework.

The compliance officer shall prepare specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme.

- **Periodicity of Review of PMLA policy:**

Necessary amendments / modifications shall be carried out to the Policy as advised by SEBI from time to time. For changes to be made to the Policy on account of regulatory developments, the Compliance Officer shall have the authority to carry out such changes to the Policy.

PMLA policy shall be reviewed atleast once in every financial year.

- **Hiring Policy**

We give preference to candidates referred by our existing employees, employees of group concerns

Interview by HR

Interview by head of the department which has requisitioned for filling vacancy

We do background check for employees with the help of information available on internet, references given by candidates as well as independently through tie with recruitment agency or third party verification.

No candidate is selected who has dubious character or there is negative information provided by his or her reference.

As such the use of outside search firm is discouraged, but if required we go for the same to check whether we are able to get some good candidate from it, but the procedure to be followed post selecting the candidate remain the same. Our reference check is also there additional to recruitment agency.

After the selection the candidate has to adhere to code of conduct as prescribed by TATA group from time to time.