



**ESCORTS
SECURITIES**

**CHECK POINTS FOR ANTI
MONEY LAUNDERING FOR
STOCK BROKING AND
DP OPERATIONS**

By ESCORTS SECURITIES LTD.

CATEGORIES OF CLIENTS RISKS:

A) Low Risk

B) Medium Risk

C) And High Risk should be classified

In case of individuals, the RM must ascertain the following:

- What is the occupation of the Client
- If the Client is in business, what is the pattern of his stake holding in business (single or multiple businesses)
- What is the primary source of Income of the Client
- Who are the primary bankers of the Client
- What is the investment value of the Client as on date
- What is the investment pattern i.e.; where are majority of his investments placed
- Does the Client have any borrowings, if so, what constitutes major borrowings
- What is the family background of the Client, who are the other contributors to family income
- What is the occupation/source of income of close relatives i.e; parents, spouse, sibling, children etc.
- What is the Clients general reputation in the market/social strata
- Has the Client been directly or indirectly involved in any scam/criminal/anti social activity

In case of non- individuals, the RM must ascertain the following:

- Business carried on by the entity;
- Nature of the entity;
- Annual Turnover / revenue of the entity;
- Beneficial owners of the entity as prescribed by SEBI;
- Persons in actual control and management of the entity;
- What is the Clients general reputation in the market
- Does the Client invest in Capital Markets, if so, since how many years

RISK PROFILING OF THE CLIENT

It is generally recognized that certain customers may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business relationship or transaction etc. Typically the clients of ESL should be classified as High Risk, Medium Risk, Low Risk

Risk Category	Indicative List of clients*
High Risk	<ul style="list-style-type: none"> a. Non resident clients b. High networth clients, (clients having trade value of Rs. 25 lacs on per day , Annual Income of Rs. 25 lacs and/ or Networth of Rs. 3 crs and above) also for any off market/market pay in/payout instructions above the prescribed limit have to be verified by confirming with client over phone / by email/ and or trading team. c. Trust, Charities, NGOs and organizations receiving donations d. Politically exposed persons (PEP) of foreign origin e. Current / Former Head of State, f. Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence) g. Companies offering foreign exchange offerings h. Clients in high risk countries where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, countries active in narcotics production, countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, countries against which government sanctions are applied, countries reputed to be any of the following – Havens/ sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent. 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), shall also independently access and consider other publicly available information. i. Non face to face clients j. Clients with dubious reputation as per public information available etc.
Medium Risk	Individual and Non-Individual clients falling under the definition of Speculators, Day Traders and all clients trading in Futures and Options segment and provided adequate margins / collaterals
Low Risk	Senior Citizens, Salaried Employees and a major portion of clients who indulge in delivery based trading

*This list is indicative.

The following safeguards are to be followed while accepting the clients:

- **For new clients:**

- Each client should be met in person, before accepting the KYC. The client should be met at the Registered Office or any of the branch offices as per mutual convenience of the client and ourselves.
- Verify the PAN details on the Income Tax website.
- All documentary proofs given by the client should be verified with original.
- Documents like latest Income Tax returns, annual accounts, etc. should be obtained for ascertaining the financial status. If required, obtain additional information/document from the client to ascertain his background and financial status.
- Obtain complete information about the client and ensure that the KYC documents are properly filled up, signed and dated. Scrutinize the forms received at branch office thoroughly before forwarding it to RO for account opening.
- Ensure that the details mentioned in the KYC matches with the documentary proofs provided and with the general verification done by us.
- If the client does not provide the required information, then we should not open the

account of such clients.

- As far as possible, a prospective client can be accepted only if introduced by AAL's existing client or associates or known entity. However, in case of walk-in clients, extra steps should be taken to ascertain the financial and general background of the client.
- If the account is opened by a PoA/Mandate Holder, then we need to clearly ascertain the relationship of the PoA/Mandate Holder with the client. Apply the KYC procedures to the PoA/Mandate Holder also.
- We should not open any accounts in fictitious / benami / anonymous basis.
- We should not open accounts where we are unable to apply appropriate KYC procedures.

• **For existing clients :**

- Keep updating the financial status of the client by obtaining the latest Income Tax Return, Networth Certificate, Annual Accounts etc.
- Update the details of the client like address, contact number, demat details, bank details etc. In case, at any point of time, we are not able to contact the client either at the address or on the phone number, contact the introducer and try to find out alternative contact details.
- Check whether the client's identity matches with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any local enforcement / regulatory agency. For scrutiny / back ground check of the clients / HNI, websites such as www.watchoutinvestors.com should be referred. Also, Prosecution Database / List of Vanishing Companies available on www.sebi.gov.in and RBI Defaulters Database available on www.cibil.com should be checked.
- Scrutinize minutely the records / documents pertaining to clients of special category (like Non-resident clients, High Net worth Clients, Trusts, Charities, NGOs, Companies having close family shareholding, Politically exposed persons, persons of foreign origin, Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange offerings, etc.) or clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption / fraud is highly prevalent.
- Review the above details on an going basis to ensure that the transactions being conducted are consistent with our knowledge of customers, its business and risk profile, taking into account, where necessary, the customer's source of funds.

FOR HIGH NET WORTH / RISK CLIENT,

- We Should Have A System Of Verifying Executed Trades At Our Back Office Through The Trade Files Sent From The Trading Terminals At Regular Intervals . The Dealers Also Monitor The Client Trading Pattern.
- Once Trades Are Identified We Cross Check The Same With The Dealers And Also Speak With the Clients For Honoring The Commitments With Regards To Delivery Of Shares Or / And Payments Required To Made. Incase Of Demat Account Is With Us Then We Normally Do An Early Pay n To The Stock Exchanges And If Any Funds Are Required Then Coordinate For The Same.
- The Dealers Have Been Briefed About All The Hni Clients With Regards To Their Trading Positions And Incase Of Any Abnormal Trades The Same Should Be Brought To The Notice Of The Manger Incharge Of The Dealing Room And Also Verify The Holding Statements From He Demat Section.

Suspicious Transactions Monitoring and Reporting:

ESL, on a on-going basis, should monitor the transactions executed by the client in order to ascertain whether the same is „suspicious“ which should be reported to FIU, India. Followings are the Surveillance/ Alerts based on the client's transactions on NSE/BSE/DP and circumstances, which may be in the nature of suspicious transactions.

Suspicious Transactions are those which :

- a) gives rise to reasonable grounds of suspicion that it may involve proceeds of Crime
- b) appears to be made in circumstances of unusual or unjustified complexity
- c) appears to have no economic rationale or bonafide purpose

CRITERIA FOR ASCERTAINING SUSPICIOUS TRANSACTIONS

Whether a particular transaction is suspicious or not will depend upon the Client background, details of the transactions, / Identity & Receipt / Payment pattern and other facts and circumstances.

- Clients whose identity verification is difficult which includes non-cooperation of the client also.
- Clients belonging to (or) introduced by persons/entities in high risk countries
- Increase in clients business without justification and Turnover not commensurate with financials
- Unusual large cash deposits
- Overseas receipts/payments of funds with or without instructions to pay in cash transaction
- transfer of proceeds to unrelated parties
- Negotiated trades /Matched trades.
- Relation of the client with the company / directors / promoters
- Unusually large transactions like, clients having traded in scrip/shares of a company over a threshold Quantity /value in a single day and volume in that scrip of that client is above a threshold percentage of the total volume in that scrip of the Exchange.
- Clients making huge and regular losses and are still placing trades/orders and further identifying the sources of funds in such cases.
- Large volume in proprietary account of Sub-Brokers/Affiliates/Dealer
- 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 based in high risk jurisdictions;
- Unusual transactions undertaken by "Client of special category (CSCs)", offshore banks/financial services, businesses reported to be in the nature of export import of small items

Alerts generated by NSDL based on transactions in Depository Accounts

- Debit and Credit transactions due to Off-market or Inter-depository transfers, above a threshold quantity, in an ISIN, in a single transaction or series of transactions executed during the fortnight.
- Details of debit and credit transactions due to demat, remat and pledge above a threshold quantity / value , in an ISIN, in a single transaction or series of transactions executed during the fortnight.
- Details of debit and credit transactions above a threshold quantity/value whichever is smaller, in an ISIN, which exceed a threshold multiple of the average size of the transaction calculated for the previous months" transactions.
- Details of Off-market transactions (within NSDL or Inter-depository) where there are more than a threshold number of transactions in an account, for the past fortnight.
- Any debit transaction in a dormant account for exceeding a threshold quantity/value whichever is smaller, will be reported as an alert. An account having no „Debit“ Transaction“ in the last „n“ months will be considered as „Dormant“ account for this purpose.

Further the Compliance Department should randomly examine select transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

Verification of Clients with Dubious Reputation

For verifying the dubious/suspicious reputation, of people , we regularly receive STR Files from NSDL and appropriate actions are taken against each STR, if any. So adequate care is taken by NSDL also for the DP entries effected on behalf of clients by us.

We are also regularly logging on to www.watchoutinvestors.com / NSE/BSE, CIBIL and anyother possible sources to get information on any dubious or debarred or suspicious people.

Any suspicion transaction needs to be notified immediately to the “**Designated Principal Officer**”. The notification may be done in the form of a detailed report with specific reference to the client's transactions and the nature / reason of suspicion. may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken.

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