

MLB COMMODITIES PVT. LTD.

ANTLMONEY LAUNDERING POLICY

Brief Overview:

The Forward Markets Commission (FMC) vide circular no: 07.01.2008-MKT-II dated 30.10.2009 has, in order to protect the commodity derivatives market from the menace of money laundering, felt it necessary to bring the members of commodity exchanges within the reporting ambit of Prevention of Money Laundering Act 2002 (PMLA). The members of the exchanges have, therefore, to follow and adopt: - The Prevention of Money Laundering Act 2002 - Prevention of Money laundering (Maintenance of records of the nature and value of transaction, the procedure and manner of maintaining and time for furnishing information and verification and maintenance of the identity of clients of the Banking companies, Financial Institutions and Intermediaries) Rules, 2005 - All other rules, regulations, notifications issued by the Government of India from time to time in that behalf. FMC's basic objective is that Members have adequate controls and procedures in place so that they know the customers with whom they are dealing.

The following framework as advised by SEBI may be followed:

1. The Members/Intermediaries in the Commodity Derivative Market (CDM) shall have adequate controls and procedures in place so that they know the customers with whom they are dealing. Adequate and due diligence on new and existing customers is a key part of these controls. The standards adopted should be such that they adhere in letter and spirit to the requirements as listed out in detail by the Prevention of Money Laundering Act, 2002 (PMLA).

SEBI has directed all the registered intermediaries to ensure compliance with the requirements contained in Prevention of Money Laundering guidelines on an immediate basis. Reference to applicable statutes and reporting guidelines for intermediaries is available at the website of the Financial Intelligence Unit – India (**FIU-IND**).

In compliance to the directions of SEBI we have framed our PMLA policy. Brief features of our PMLA policy are as:

This policy is divided into three parts –

Part I– Important provisions of the Prevention of Money Laundering Act and the Rules

Part II – Important guidelines issued by SEBI and copies of the circulars issued by Commodity Exchanges.

Part III - Policy and procedures adopted by the Company.

This policy is being sent to all employees through email as also is being hosted in our company's web portal. It is obligatory for every employee, at all levels, to go through this policy, understand the provisions, and co-operate in the implementation of the procedures. For any clarifications on this subject, at any point of time, you may contact the Compliance Officer of the company, who is also designated as the Principal Officer under the Prevention of Money Laundering Act.

PART I – IMPORTANT PROVISIONS OF THE PREVENTION OF MONEY LAUNDERING ACT AND THE RULES MADE THEREUNDER:

Meaning of Money Laundering:

Financial Action Task Force on Money Laundering (FATF) defines money laundering as “the processing of criminal proceeds to disguise their illegal origin in order to legitimize the ill-gotten gains of crime.”

According to **Section 3 of Prevention of Money Laundering Act, 2002** – “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.

Why Money is laundered:

There are several reasons why people launder money. These include:

Hiding wealth: criminals can hide illegally accumulated wealth to avoid its seizure by authorities;

Avoiding prosecution: criminals can avoid prosecution by distancing themselves from the illegal funds;

Evading taxes: criminals can evade taxes that would be imposed on earnings from the funds;

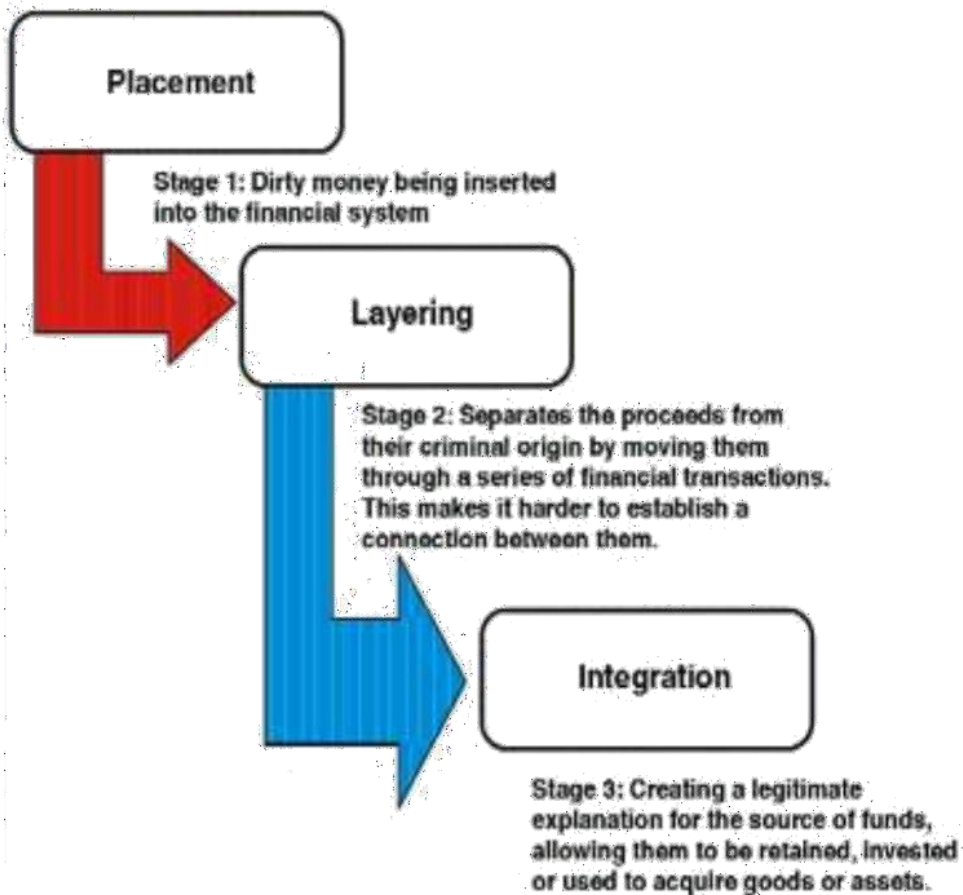
Increasing profits: criminals can increase profits by reinvesting the illegal funds in businesses;

Becoming legitimate: criminals can use the laundered funds to build up a business and provide legitimacy to this business.

Money Laundering Process:

Money laundering is not a single act but is in fact a process that is accomplished in three basic steps. These steps can be taken at the same time in the course of a single transaction, but they can also appear in well separable forms one by one as well. The steps are explained hereunder –

Money laundering demystified



1) **Placement**

The first stage is the physical disposal of cash. The launderer introduces his illegal profits into the financial system. This placement is accomplished by depositing the cash in domestic banks or in other types of formal or informal financial institutions. This is done by breaking up large amounts of cash into less conspicuous smaller sums that are then deposited directly into a bank account, or by purchasing a series of monetary instruments (cheques, money orders, etc.). The cash is usually siphoned off across borders for deposit in foreign financial institutions, or used to buy high-value goods, such as artwork, aeroplanes, and precious metals and stones, that can then be resold for payment by cheque or bank transfer.

2) **Layering**

The Second stage in money laundering is layering. The launderer engages in a series of conversions or movements of the funds to distance them from their source. The funds might be channelled through the purchase and sale of investment instruments such as bonds, stocks, and traveller's cheques or the launderer might simply wire the funds

through a series of accounts at various banks across the globe, particularly to those jurisdictions that do not cooperate in anti-money laundering investigations. In some instances, the launderer might disguise the transfer as payments for goods or services, thus giving them a legitimate appearance. A number of rotations to slush funds are given through banks and this complex layer of financial transactions is carried out to divorce the illicit proceeds from their source and mislead the investigating agencies. The high-value goods and monetary instruments are resold and the proceeds are invested in real estate and legitimate businesses, particularly in the leisure and tourism industries. Shell companies i.e. paper companies/bogus companies) serve as front and are registered in offshore havens. They are a common tool in the layering phase.

3) **Integration**

This is the stage where the funds are returned to the legitimate economy for later extraction. Examples include investing in a company, purchasing real estate, luxury goods, etc. This is the final stage in the process. The launderer makes it appear to have been legally earned and accomplishes integration of the “cleaned” money into the economy. By this stage, it is exceedingly difficult to distinguish legal and illegal wealth. It involves making the wealth derived from crime appear legitimate.

The following methods show the means or medium using which, launderers carry out their activities:

- a) **Structuring ("Smurfing"):** Smurfing is possibly the most commonly used money laundering method. It involves many individuals who deposit cash into bank accounts or buy bank drafts in amounts in small amounts to avoid the reporting threshold.
- b) **Bank Complicity:** Bank complicity occurs when a bank employee is involved in facilitating part of the money laundering process.
- c) **Money Services and Currency Exchanges:** Money services and currency exchanges provide a service that enables individuals to exchange foreign currency that can then be transported out of the country. Money can also be wired to accounts in other countries. Other services offered by these businesses include the sale of money orders, cashiers cheques, and traveller's cheques.
- d) **Asset Purchases with Bulk Cash:** Money launderers may purchase high value items such as cars, boats or luxury items such as jewellery and electronics. Money launderers will use these items but will distance themselves by having them registered or purchased in an associate's name.
- e) **Electronic Funds Transfer:** Also referred to as a telegraphic transfer or wire transfer, this money laundering method consists of sending funds electronically from one city or country to another to avoid the need to physically transport the currency.

- f) **Postal Money Orders:** The purchase of money orders for cash Allows money launderers to send these financial instruments out of the country for deposit into a foreign or offshore account.
- g) **Credit Cards:** Overpaying credit cards and keeping a high credit balance gives money launderers access to these funds to purchase high value items or to convert the credit balance into cheques.
- h) **Casinos:** Cash may be taken to a casino to purchase chips which can then be redeemed for a casino cheque.
- i) **Refining:** This money laundering method involves the exchange of small denomination bills for larger ones and can be carried out by an individual who converts the bills at a number of different banks in order not to raise suspicion. This serves to decrease the bulk of large quantities of cash.
- j) **Legitimate Business / Co-mingling of Funds:** Criminal groups or individuals may take over or invest in businesses that customarily handle a high cash transaction volume in order to mix the illicit proceeds with those of the legitimate business. Criminals may also purchase businesses that commonly receive cash payments, including restaurants, bars, night clubs, hotels, currency exchange shops, and vending machine companies. They will then insert criminal funds as false revenue mixed with income that would not otherwise be sufficient to sustain a legitimate business.
- k) **Value Tampering:** Money launderers may look for property owners who agree to sell their property, on paper, at a price below its actual value and then accept the difference of the purchase price "under the table". In this way, the launderer can, for example, purchase a 2 million rupee property for 1 million rupee, while secretly passing the balance to the seller. After holding the property for a period of time, the launderer then sells it for its true value of 2 million rupees.
- l) **Loan Back:** Using this method, a criminal provides an associate with a sum of illegitimate money and the associate creates the paperwork for a loan or mortgage back to the criminal for the same amount, including all of the necessary documentation. This creates an illusion that the criminal's funds are legitimate. The scheme's legitimacy is further reinforced through regularly scheduled loan payments made by the criminal, and providing another means to transfer money.

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.

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 and shall also be liable to fine.

Attachment of property involved in money laundering

According to Section 5 of the Act, where the Director or any other officer but not below the rank of Deputy Director authorized by him, has reason to believe on the basis of material in his possession that any person is in possession of any proceeds of money laundering or such person has been charged of having committed a scheduled offence or such proceeds of crime are likely to be concealed, transferred or dealt with in any manner, which may result in frustrating any proceedings relating to confiscation of such proceeds of crime, then such officer may by order in writing, provisionally attach such property for a period not exceeding 150 days from the date of the order, in the manner provided in the Second Schedule of the Income Tax Act, 1961.

But no order of attachment should be made unless, in relation to the scheduled offence, a report has been forwarded to a Magistrate under Sec.173 of the Code of Criminal Procedure, 1973 or a complaint has been filed by a person, authorised to investigate the offence mentioned in the Schedule, before a Magistrate or court for taking cognizance of the scheduled offence, as the case may be. Further apart from the above, any property of any person may be attached under this section if the Director or any other officer not below the rank of Deputy Director authorised by him has reason to believe (reasons to be recorded in writing) on the basis of the material in his possession, that if the property involved in money laundering is not attached immediately, then the non-attachment of the property is likely to frustrate any proceeding under the Act.

Every order of attachment will cease to have effect after the expiry of 150 days from the date of the order or on the date of the order made by the Director, whichever is earlier. The Director or any other officer who provisionally attaches the property should, within a period of 30 days from such attachment, file a complaint, stating the facts of such attachment before the Adjudicating Authority.

Banking companies, Financial Institutions and intermediaries to maintain records:

“Every banking company, or 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 identity of all its clients, in such a 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.

As per Prevention of Money Laundering Act, 2002 the banking company or financial institution or intermediaries shall maintain the records for a period of five years from the date of cessation of the transactions between the clients and the banking company or financial institutions or intermediary, as the case may be.

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 IDENTITY OF THE CLIENTS OF THE BANKING COMPANIES, FINANCIAL INSTITUTIONS AND INTERMEDIARIES) RULES, 2004 NOTIFIED ON 1-7-2005.

Definitions:

Client: 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 identify card issued by the Election Commission of India or any other document as may be required by the banking company, or financial institution or 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.

Rule 3: Maintenance of records: (1) 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 lacs or its equivalent in foreign currency.
- B. All series of cash transactions integrally connected to each other which have been valued below Rs 10 lacs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- C. All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place
- D. All suspicious transactions, whether or not made in cash and by way of:
 - i) Deposits and credits, withdrawals into or from any accounts in whatsoever name they are referred to in any currency maintained by way of:

- a. Cheques including third party cheques, pay orders, demand drafts, cashiers cheques or any other instruments of payment of money including electronic receipts or credits and electronic payments or debits or
 - b. Traveller's cheque, or
 - c. 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
 - d. 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, demand drafts, telegraphic or wire transfer of electronic remittances or transfer or interest 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, interbank 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.

E. All cross border wire transfers of the value of *more than five lac rupees* or its equivalent in foreign currency where either the origin or destination of fund is in India;

F. All purchase and sale by any person of immovable property valued at *fifty lac rupees or more* that is registered by the reporting entity, as the case may be.”

Rule 4 Records containing information:

The records referred above shall contain the following information;

- a) The nature of 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.

Rule 5: Procedure and manner of maintaining information:

- a) 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 any other Regulatory Authority as the case may be from time to time.
- b) Every Banking company, financial institution and intermediary shall evolve an internal mechanism for maintaining such information in such form and at such interval as may be specified by the RBI or the SEBI or any other Regulatory Authority as the case may be, from time to time
- c) 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 any other Regulatory Authority 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 ten 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 7: Procedure and manner of furnishing information:

- (a) Every banking company, financial institution and intermediary, as the case may be, shall communicate the name, designation and address of the Principal Officer to the Director.
- (b) The Principal Officer shall furnish the information referred to in rule 3 to the Director on the basis of information available with the banking company, financial institution and Intermediary, as the case may be. A copy of such information shall be retained by the Principal Officer for the purposes of official record.

(c) Every banking company, financial institution and intermediary may evolve an internal mechanism for furnishing information referred to in rule 3 in such form and at such intervals as may be directed by the RBI or the SEBI or any other Regulatory Authority, as the case may be.

(d) It shall be the duty of every banking company, financial institution and intermediary to observe the procedure and the manner of furnishing information referred to in rule 3 as Specified by the RBI or the SEBI or any other Regulatory Authority under sub-rule (3), as the case may be.

Rule 8: Furnishing information to the Director:

The Principal Officer of a banking company, the financial institution and intermediary, as the case may be, shall furnish the information in respect of transactions referred to in rule 3 every month to the Director by the 15th day of the succeeding month other than transactions referred to in clauses (C) and (D) of sub-rule (1) of rule 3: Provided that information in respect of transactions referred to in clauses (C) and (D) of sub-rule (1) of rule 3 shall be promptly furnished in writing or by way of fax or electronic mail to the Director not later than three working days from the date of occurrence of such transactions.

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

(i) Every banking company, financial institution and intermediary, as the case may be, shall,

(a) at the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship, and

(b) in all other cases, verify identity while carrying out:

(i) transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or

(ii) any international money transfer operations.

(ii) Every banking company, financial institution and intermediary, as the case may be, shall determine whether a client is acting on behalf of a beneficial owner, identify the beneficial owner and take all reasonable steps to verify his identity.

(iii) Every banking company, financial institution and intermediary, as the case may be, shall exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.

(iv) No banking company, financial institution or intermediary, as the case may be, shall keep any anonymous account or account in fictitious names.

(v) 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.

(vi) 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, three certified copies of the following documents;

a) certificate of incorporation

b) Memorandum and Articles of Association

c) A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf, and

vii) An officially valid document in respect of managers, officers or employees holding an attorney to transact on his behalf.

(viii) 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 as the case may be, three certified copies of the following documents:

registration certificate

partnership deed and

an officially valid document in respect of the person holding an attorney to transact on its behalf.

(ix) 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, three certified copies of the following documents ;

registration certificate

trust deed and

an officially valid document in respect of the person holding an attorney to transact on its behalf.

(x) 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 records of the identity of clients:

(i) Every Banking company, financial institution and intermediary as the case may be shall maintain the records of the identity of its clients.

(ii) The records of the identity of clients shall be maintained in hard and soft copies in a manner as may be specified by the SEBI from time to time.

(iii) Where the banking company, financial institutions and intermediary as the case may be does not have records of the identity of its existing clients, it shall obtain the records within the period specified by the regulator, failing which the reporting entity shall close the account of the clients after giving due notice to the client.

Explanation: For the purpose of this rule, the expression records of the identity of clients shall include updated records of the identification date, account files and business correspondence

PART II: IMPORTANT GUIDELINES ISSUED BY SEBI

Guiding Principles:

The Members/Intermediaries in the Commodity Derivative Market (CDM) shall have adequate controls and procedures in place so that they know the customers with whom they are dealing. Adequate and due diligence on new and existing customers is a key part of these controls. The standards adopted should be such that they adhere in letter and spirit to the requirements as listed out in detail by the Prevention of Money Laundering Act, 2002 (PMLA).

The Customer Due Diligence would include the following aspects:

- a. Customer acceptance policy
- b. Customer identification
- c. Monitoring of transactions
- d. Tracking and reporting suspicious transactions

a. Customer Acceptance Policy

The Members/Intermediaries should develop clear customer acceptance policies and procedures, including a description of the types of customers that are likely to pose a higher than normal risk to them. In preparing such policies factors such as customers' background, origin, public position, related accounts, business activities or other risk indicators should be considered. The Members/Intermediaries should develop graduated customer acceptance policies and procedures that require more extensive due diligence for higher risk customers. For example, the policies may require the fundamental account-opening requirements for a working individual with a small CDM transaction. It is, however, important that the customer acceptance policy is not so restrictive that it results in a denial of access to the market participants, especially the targeted beneficiaries like farmers. On the other hand, quite extensive due diligence would be essential for an individual with a high net worth whose source of funds is unclear. Decisions to enter into business relationships with high risk customers, such as politically exposed persons, should be taken exclusively at senior management level.

b. Customer Identification

Customer identification is an essential element of KYC standards. A customer would include the person or entity that maintains an account with the member/intermediary or those on whose behalf an account is maintained (i.e., beneficial owners). The Member/Intermediary should undertake the following processes for proper identification of customers:

- i) Identifying the customer and verifying that customer's identity using reliable, independent source documents;

- ii) Identifying the beneficial owner, and taking reasonable measures to verify the identity of the beneficial owner such that the Member/Intermediary is satisfied that it knows who the beneficial owner is;
- iii) In case of high value of transactions, obtaining information on the purpose and intended nature of the business relationship;
- iv) Conducting ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the Members/Intermediaries knowledge of the customer, their business profile and risk profile, including, where necessary, the source of funds.

Indicative list of documents that may be obtained from the customers is enclosed at Annexure I.

It is felt that in some specific cases, the more rigorous identification procedures should be put in place. The following list is indicative, and the member/intermediary can have advanced process for the customer which it feels has high risk profile. Such high risk customers would include the following, but may not be restricted to depending on other customers having high risks associated to them:

Companies having close family shareholdings or beneficial ownership
Non-face-to-face clients

Non resident clients

High Networth clients,

Trusts, Charities, NGOs and organizations receiving donations
Politically exposed persons (PEP) of foreign origin

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 which are perceived to be sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent)

Clients with dubious reputation as per public information available.

The above mentioned list is only illustrative and the Member/Intermediary should exercise independent judgment to ascertain whether new clients should be classified for more rigorous identification.

c. Monitoring of Transactions

The Member/Intermediary should put in place a mechanism to monitor the transactions being conducted through it, for ensuring effectiveness of the Anti Money Laundering procedures. For this, the Member/Intermediary should keep a tab on the transaction profile of the clients. This would help them in identifying the abnormal trade profile of the suspected clients.

The Member/Intermediary should pay attention to all complex, unusually large transactions / patterns which appear to have no financial or commercial justification.

Very high account turnover, inconsistent with the size of the balance, may indicate that funds are being “routed / washed” through the account. Examples of suspicious activities can be very helpful to the member/intermediary and should be included as part of a jurisdiction’s anti-money laundering procedures and/or guidance. The Member/Intermediary may also implement internal reporting mechanism and have threshold limits for each class of customers and pay special attention to the transaction which exceeds these limits.

The Member/Intermediary should ensure that a record of transactions is preserved and maintained for a period of five years and that any transaction of suspicious nature is reported to the appropriate regulatory / other authority.

d. Tracking and Reporting Suspicious Transactions

It is emphasized that considering the sensitivity of the issue, the Suspicious transaction reporting should be taken up with utmost care and seriousness. The Members/Intermediaries should ensure to take appropriate steps to enable suspicious transactions be recorded. They should have appropriate internal procedures for reporting of suspicious transactions. Indicative list of circumstances / profile of the customer is indicated below to serve as a guidance to the Member/ Intermediary for recognizing them:

- i) Clients whose verification is complex and not confirmed from other sources;
- ii) Substantial increases in turnover without any reason;
- iii) Large cash deposits made with the member/intermediary;

The suspicious transaction should be immediately notified to the Principal Officer or any other designated officer within the member/intermediary. The compliance cell of the member/intermediary should randomly examine a selection of transaction undertaken by clients to comment on their nature, i.e., whether they are suspicious transactions.

PART III : POLICIES AND PROCEDURES ADOPTED BY THE COMPANY

The Government of India has serious concerns over money laundering activities which are not only illegal but anti-national as well. As a market participant it is evident that strict and vigilant tracking of all transactions of suspicious nature required.

Accordingly Our Company, MLB Commodities Private Limited (MCPL) has laid down following policy guidelines:

Principal Officer:

MCPL has designated Mr. Abhinav Bansal as the Principal Officer and Mr. Anand Saroop Bansal as the Designated Director. The Principal Officer will be responsible for implementation of internal controls & procedures for identifying and reporting any suspicious transaction or activity to the concerned authorities.

MCPL has provided the FIU with contact information for the Principal Officer and Designated Director.

1) Policy Statement and Objectives: Our corporate philosophy is not to get associated in any form with any violations in any Country for any reason whatsoever, including anxiety for corporate profit or assisting a client. The Policy objectives are as under:

- To prevent criminal elements from using our business for money laundering activities
- To understand the clients and their financial dealings better, which in turn would help us to 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 apply to all employees of MLB Commodities Pvt. Ltd./ Sub-Brokers/ Authorised Persons and their staff and are to be read in conjunction with the existing PMLA guidelines.

3) Key Elements of the Policy:

(I) Client Due Diligence (CDD):

The CDD measures shall comprise the following:

- (a) 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.

(c) Verify the client's identity using reliable, independent source documents, data or information;

(c) Identifying 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

1. For Clients are other Individual and Trust: Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the intermediary 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 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; or

ii more than 15% of 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 individual.

b. In cases where there exists doubt under clause (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means
Explanation- Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner

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

2. For Client which is a Trust- Where the client is a trust, the intermediary 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. 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.

4. Applicable for Foreign Investors- While dealing with foreign investors, MCPL will be guided by the clarifications issued vide SEBI circulars CIR/MIRSD/11/2012 dated September 5, 2012 and CIR/ MIRSD/ 07/ 2013 dated September 12, 2013, for the purpose of identification of beneficial ownership of the client.

5. Monitor of compliance- The compliance of the aforementioned provision on identification of beneficial ownership shall be monitored by the Board of Directors of MCPL.

- (d) 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 (c);
- (e) Understand the ownership and control structure of the client;
- (f) 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 our knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds; and
- (g) MCPL shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process.

The SEBI KRA/ CKYC process shall be followed at all times as applicable

(II) Client Acceptance Policy:

Client acceptance policies and procedures should aim to identify the types of clients that are likely to pose a higher than average risk of ML or TF (Money Laundering or Terror Financing).

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

- (a) No account is opened in a fictitious / benami name or on an anonymous basis.
- (b) Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category may, if necessary, be classified even higher. Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile.
- (c) Documentation requirements and other information shall be collected in respect of different classes of clients depending on the perceived risk and having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.

- (d) MCPL shall ensure that no account is opened where they are unable to apply appropriate CDD measures / KYC policies. This shall be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to us is suspected to be non genuine, or there is perceived non co-operation of the client in providing full and complete information. MCPL shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. MCPL shall be cautious to ensure that it does not return securities of money that may be from suspicious trades. However, MCPL shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.
- (e) The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent- client registered with us, as well as the person on whose behalf the agent is acting shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.
- (f) Necessary checks and balance to be put into place before opening an account so as to ensure that the identity of the client does not match with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any enforcement agency worldwide.
- (g) The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

4) Risk-based Approach

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, MCPL shall apply each of the client due diligence measures on a risk sensitive basis. The basic principle enshrined in this approach is that MCPL 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 MCPL 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.

5) Clients of special category (CSC):

Such clients include the following.

- a. Non resident clients.
- b. High networth clients.

- c. Trust, Charities, NGOs and organizations receiving donations.
- d. Companies having close family shareholdings or beneficial ownership.
- e. Politically exposed persons (PEP) of foreign origin.
- f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence).
- g. Companies offering foreign exchange offerings.
- h. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- i. Non face to face clients.
- j. Clients with dubious reputation as per public information available etc.

The above mentioned list is only illustrative and MCPL shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

6. **Categorization of clients:** All the clients are categorized under three categories:

Low Risk

- a) Client with clean image, not PEP, with collaterals up to Rs. 10 Lacs with us.
- b) Listed Companies
- c) Govt. owned companies, regulated bodies like banks and PMLA regulated intermediaries

Medium Risk

- a) Client, not PEP, having collaterals of more than Rs. 10 Lacs with us.
- b) Client where identity and sources of wealth are not supported by public documents like income returns, registered conveyance deeds etc.
- c) Clients with sudden spurt in volumes or investment without apparent reasons
- d) Person in business/industry or trading activity where scope or history of unlawful trading/business activity dealings is more.

High Risk

Clients are those who have defaulted in the past, have suspicious background, do not have any financial status, etc.

Following descriptions shall be compulsorily categorized as a “High Risk Client”:

- a) Non resident clients.
- b) High networth clients.
- c.) Trust, Charities, NGOs and organizations receiving donations.
- d). Companies having close family shareholdings or beneficial ownership.

- e). Politically exposed persons (PEP) of foreign origin.
- f). Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence).
- g). Companies offering foreign exchange offerings.
- h). Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, Countries active in narcotics production, Countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, Countries against which government sanctions are applied, Countries reputed to be any of the following – Havens / sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent.
- i). Non face to face clients.
- j). Clients with dubious reputation as per public information available etc.

7 Client Identification Procedures:

- (i) MCPL shall be in compliance with the following requirements while putting in place a Client Identification Procedure:
 - a) MCPL shall proactively put in place appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures shall include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures as outlined above shall also be applicable where the beneficial owner of a client is a PEP.
 - b) MCPL will obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, MCPL shall obtain senior management approval to continue the business relationship.
 - c) MCPL shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.
 - d) 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.
 - e) The client shall be identified by us by using reliable sources including documents / information. MCPL shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
 - f) The information must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by us in compliance with the directives. Each original document shall be seen prior to acceptance of a copy.
 - g) Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority.

ii). Proof of Identity & Address

The proofs of identity/address as specified by SEBI through various circulars are accepted.

- a) PAN Card ,Unique Identification Number (UID) (Aadhaar) ,Passport ,Voter ID , Driving license; or Identity card/ document with applicant's Photo, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities, Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members; and Credit cards/Debit cards issued by Banks.
- b) In the case of joint account, the above procedure should be carried out for all the persons who hold the joint account.
- c) 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 have been changed, reasonable enquiries should be made.
- d) In case of company, partnership firm, trust, non-resident client(s) due diligence as directed by SEBI is carried on.

Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, MCPL shall frame our own internal directives based on our experience in dealing with their clients and legal requirements as per the established practices. Further, MCPL shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that MCPL are aware of the clients on whose behalf MCPL are dealing.

MCPL shall formulate and implement a CIP which shall incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients.

(iii) It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to us from obtaining the minimum information/documents from clients as stipulated in the PML Rules/SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise

exemption available for carrying out CDD measures by us. This shall be strictly implemented by us.

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

- i. MCPL 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.
- ii. 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, it is clarified that MCPL shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.

8. Procedure for freezing of funds, financial assets or economic resources or related services

MCPL is aware that under section 51A of Unlawful Activities (Prevention) Act, 1967, 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.

- I. MCPL shall ensure shall ensure effective and expeditious implementation of the procedure laid down in the UAPA Order dated August 27, 2009 as listed below-
 - (i) 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 (MHA)' and forwarded by SEBI, we shall take the followings steps:
 - a) MCPL shall 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
 - b) If the particulars of any of customer/s match the particulars of designated individuals/entities, MCPL 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 their books to the Joint Secretary (IS.I), Ministry of Home Affairs, at Fax No.011-23092569 and also convey over telephone on 011-23092736. MCPL would also convey the information through e-mail at jsis@nic.in.

- c) MCPL 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
- d) In case the aforementioned details of any of the customers match the particulars of designated individuals/entities beyond doubt, MCPL would prevent designated persons from conducting financial transactions, 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
- e) MCPL shall also file a Suspicious Transaction Report (STR) with FIU-IND covering all transactions in the accounts covered by paragraph I (i) (b) above carried through or attempted, as per the prescribed format

II. 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 MCPL and the procedure as enumerated at paragraphs 8 (I) and (II) shall be followed.
- v. The freezing orders shall take place without prior notice to the designated persons involved

III. 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

- i. 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 MCPL. MCPL 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 I (i)(b) 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 MCPL. 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.

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

All Orders under section 51A of the UAPA relating to funds, financial assets or economic resources or related services, would be communicated to stock exchanges, depositories and MCPL through SEBI.

9 Record Keeping:

- i. MCPL shall ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.
- ii. MCPL shall maintain such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

- iii. Shall 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, MCPL shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:
- 1) the beneficial owner of the account;
 - 2) the volume of the funds flowing through the account; and (c) for selected transactions:
 - (1) the origin of the funds;
 - (2) the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
 - (3) the identity of the person undertaking the transaction;
 - (4) the destination of the funds;
 - (5) the form of instruction and authority.
- iv. MCPL shall ensure that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.
- v. More specifically, MCPL shall put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:
- (a) all cash transactions of the value of more than rupees ten lacs or its equivalent in foreign currency;
 - b) all series of cash transactions integrally connected to each other which have been valued below rupees ten lacs 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 lacs;
 - c) all cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
 - d) all suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

10. Information to be maintained

MCPL shall maintain and preserve the following information in respect of transactions referred to in Rule 3 of PML Rules:

- i) the nature of the transactions;
- ii) the amount of the transaction and the currency in which it is denominated;
- iii) the date on which the transaction was conducted; and
- iv) the parties to the transaction

11. Retention of Records

- i. MCPL shall take appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules shall be maintained and preserved for a period of five years from the date of transactions between the client and us
- ii. Records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence shall be maintained and preserved for a period of five years after the business relationship between a client and us has ended or the account has been closed, whichever is later.
- iii. Thus the following document retention terms shall be observed:
 - a) All necessary records on transactions, both domestic and international, shall be maintained at least for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed there under as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.
 - b) MCPL shall maintain and preserve the record of documents evidencing the identity of its clients and beneficial owners (e.g., copies or records of official identification documents like passports, identity cards, driving licenses or similar documents) as well as account files and business correspondence for a period of five years after the business relationship between a client and us has ended or the account has been closed, whichever is later.
- iv. In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed.
- v. Records of information reported to the Director, Financial Intelligence Unit - India (FIU-IND): MCPL shall maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of five years from the date of the transaction between the client and us

12. Monitoring of transactions

- i) Regular monitoring of transactions is vital for ensuring effectiveness of the AML procedures. MCPL shall pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. MCPL may specify internal threshold limits for each class of client accounts and pay special attention to transactions which exceeds these limits. The background including all documents/ office records/ memorandums/ clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully.

- ii) For identifying the suspicious transactions, the followings illustrative questions may be considered.
 - a) Is the client willing to accept uneconomic terms without apparent reason?
 - b) Is the transaction inconsistent with legitimate business activity?
 - c) Is the transaction inconsistent with the normal pattern of the client's investment activity?
 - d) Is the transaction inconsistent with the client's account-opening documents?
 - e) Has the client requested that the transaction be cleared in a way that is inconsistent with normal practice?
 - f) Clients whose identity verification seems difficult or clients that appear not to cooperate.
 - g) Clients based in high risk jurisdictions;
- iii) Any suspicious transaction shall be immediately notified to the Principal Officer. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall not be told of the report/suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken. The Principal Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information.
- iv) It is likely that in some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents. MCPL shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

This policy categorizes clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. Such clients shall also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

13. List of Designated Individuals/Entities

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) can be accessed at its website at <http://www.un.org/sc/committees/1267/consolist.shtml>. MCPL shall ensure that accounts are not opened in the name of anyone whose name appears in said list. MCPL shall continuously scan all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to SEBI and FIU-IND.

14. Reporting to Financial Intelligence Unit-India

- i) In terms of the PML Rules, MCPL are required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the address Director, FIU-IND, Financial Intelligence Unit-India, 6th Floor, Hotel Samrat, Chanakyapuri, New Delhi-110021. Website: <http://fiuindia.gov.in>
- ii) MCPL shall ensure reporting in the Cash Transaction Report/ Suspicious Transactions Report in the formats as prescribed from time to time, as under:
 - (a) The Cash Transaction Report (CTR) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month.
 - (b) The Suspicious Transaction Report (STR) shall be submitted within 7 days of arriving at a 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.
 - (c) The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND;
 - (d) Utmost confidentiality shall be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address.
 - (e) No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported.
- iii) MCPL shall not put any restrictions on operations in the accounts where an STR has been made. Our directors, officers and employees (permanent and temporary) shall be prohibited from disclosing (“tipping off”) the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level. It is clarified that irrespective of the amount of transaction and/or the

threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, MCPL shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

15. Employees' Hiring/Employee's Training/ Investor Education

i) Hiring of Employees

MCPL shall have adequate screening procedures in place to ensure high standards when hiring employees. They shall identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

ii) Employees' Training

MCPL shall have an ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements shall have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

iii) Investors Education

Implementation of AML/CFT measures requires us to demand certain information from investors which may be of personal nature or has hitherto never been called for. Such information can include documents evidencing source of funds/ income tax returns/ bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need for us to sensitize their clients about these requirements as the ones emanating from AML and CFT framework. MCPL shall prepare specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT programme and place them on our website(s)

16. Risk Assessment

a. MCPL shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country specific information that is circulated by the Government of India/ 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>

b. 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.
