

Note on Prevention for Anti Money Laundering (PMLA rules 2002)

The Prevention of Money Laundering Act, 2002 (PMLA) was brought into force with effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on July 01, 2005 by SEBI.

The PMLA guideline requires all intermediaries to adhere to these guidelines and try and implement the requirements while dealing for their clients apart from the stringent client identification norms. Some of the other requirements are as given hereafter:

Important Definitions:

1. *"intermediary" means a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992;*
2. *"proceeds of crime" means any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property*
3. *"scheduled offence" means - i) the offences specified under Part A of the Schedule; or ii) the offences specified under Part B of the Schedule if the total value involved in such offences is thirty lakh rupees or more;*

Principal Officer

The company has appointed Mr. S.S. Gulati as Principal Officer for framing, updating and monitoring the internal controls, policies and procedures as per the requirements of Prevention of Money Laundering Act – 2002 (hereinafter referred to as Act).

Written Procedures

Customer Due Diligence

1. Policy for acceptance of clients

The overriding principles in the identification and verification processes are Know Your Client ("KYC") and Know Your Business ("KYB"). These principles, as well as being essential elements in combating money laundering and terrorist financing, enable LKP to service its clients better. They are also essential in terms of recognition of suspicious activity. It is NOT the case that all unusual clients, transactions or circumstances need to be reported, just those that are suspicious, but it is a good place to start. It may be that upon further

enquiry, the unusual elements are found to be fine, but if not, they need to be reported to Principal Officer for further consideration.

2. Procedure for identifying clients

As a general rule, new client forms must be completed in relation to all new clients. Copies of identification evidence as requested on the form must be obtained as soon as possible. Customer identification and verification depending on nature /status of the customer and kind of transactions that are expected by the customer. Independent verification of the client's identity and address should be undertaken. If it is impossible to identify the client, then he should be turned away.

In the case of corporate clients or partnerships, certified copies of incorporation documents should be obtained. If possible a visit should be rendered to the potential client, as it is a good action to meet the client face-to-face.

For existing clients processes include:

- a. Review of KYC details of all the existing active clients.
- b. In case of non-individuals client additional information about the directors, partners and major shareholder is obtained.
- c. Obtaining of financial documents from all clients on yearly basis.

3. Transaction monitoring and STR:

While it is impossible to list all the transactions or circumstances that might raise a suspicion of money laundering, the following questions should be closely 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 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?

The regular monitoring of all customers — both new and longstanding — must include consideration of whether accounts are being used for questionable purposes.

Clients of special category (CSC)

- I. Non-resident clients.
- II. High net-worth clients,
- III. Trust, Charities, NGOs and organizations receiving donations,
- IV. Companies having close family shareholdings or beneficial ownership,
- V. Politically exposed persons (PEP). Politically exposed persons are individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc. The additional norms applicable to PEP as contained in the subsequent clause 5.5 (Page 19 of the Master Circular) shall also be applied to the accounts of the family members or close relatives of PEPs,
- VI. Companies offering foreign exchange offerings,
- VII. Clients in high risk countries (where existence / effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, 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.
- VIII. Non face to face clients.
- IX. Clients with dubious reputation as per public information available etc.

RISK CATEGORIZATION OF CLIENTS:

High Risk Clients:

1. Clients who are refusing to provide their financial details / source of income.
2. Clients against whom any action has been taken by SEBI/Stock Exchange or any other regulatory authority in the past
3. Individual clients whose employer is a politician, income tax / custom department / any other governmental department.
4. Corporate clients not disclosing the identity, address of Directors, not giving financial statements.
5. Clients residing in highly sensitive areas. For example, naxalite regions, areas where dealing in narcotic drugs, immoral traffic, corruption, etc is highly predominant.

This includes person residing in UAE, Kashmir (India), Leh-Ladakh, Pakistan, Kuwait, Iran & Iraq, Bangladesh.

Medium Risk Clients:

1. Client whose account is operated by POA holder other than LKP.
2. Clients who has given trading authorization in some other person's name, (excluding sub broker)

Low Risk Clients:

All clients not meeting the above criterions are low risk clients.

Also, we need not be dealing with clients who are prohibited as such under the UN sanction list/ CFT/FIU/SEBI/OFAC or any other authority. Further, we need to place extra caution while accepting residents of Iraq or Iran or any such country which is under the scanner, as our client, if they are allowed to do so by SEBI.

Ongoing training to Employees / Hiring New Staff

1. Employee training under the leadership of the Principal Officer pertains to Importance of PMLA Act & its requirement.
2. Organizing suitable training programme wherever required for new staff, front-line staff etc.

Preservation of Records

The records have to be preserved for a period of ten years.

Financial details updation

The financial details of the client are compulsory at the time of account opening which needs to be updated periodically as notified by the regulators from time to time.