

VLS Securities Limited

Anti-Money Laundering Draft Policy & Procedures As per Prevention of Money Laundering Act, 2002

1. Introduction

Prevention of Money Laundering Act, 2002 (PMLA) was enacted to prevent money laundering and to provide for confiscation of property derived from, or involved in, money-laundering and for matters connected therewith or incidental thereto. The provisions of PMLA came into force on 01st July 2005. Section 12 of PMLA, inter-alia, requires all intermediaries associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992 to maintain a record of all transactions, the nature and value of which has been prescribed under the rules notified under the PMLA. Pursuant to this, Securities and Exchange Board of India (SEBI) issued Guidelines on Anti Money Laundering Standards and various circulars from time to time to implement the provisions of PMLA in the securities market and to prevent and impede money-laundering and combat financing of terrorism. VLS Securities Limited (hereinafter referred to as 'VLS' or 'the Company'), hereby adopts and bring into effect this Anti Money Laundering Policy & Procedures (AML Policy & Procedures) in accordance with the provisions of PMLA and the rules made there under, SEBI Guidelines and Circulars issued from time to time on this subject. The policy applies not only to money laundering, but also to terrorist financing. All references to money-laundering in this policy, company policies and procedures and standards include terrorist financing as appropriate. The ANL-CFT policy and procedures are periodically reviewed.

2. Policy

The Company shall endeavor at all times to comply, in letter and spirit, with the provisions of all relevant laws, rules, regulations, guidelines and circulars issued by regulatory authorities in relation to anti-money laundering and the Company's policies & procedures. To these ends the Company shall:

- Appoint a Principal Officer responsible for ensuring compliance with the PMLA;
- Appoint a Designated Director's as defined in Rule 2 (ba) of the PML Rules, who should be responsible for ensuring the compliance with the PMLA requirements;
 - “Designated Director's means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes the Managing Director or any other Director duly authorized by the Board of Directors.
- Establish appropriate 'Customer Due Diligence Process' for:
 - . identification of clients (and actual beneficial owners) and verification of their identity;
 - . obtaining additional 'know your client' information as appropriate and necessary;
 - . acceptance of clients & client identification procedure
 - . identification of suspicious transactions and reporting of the validated suspicions to the appropriate authorities, as required;

- . Maintain appropriate records of customer identification and trail of transactions; and
- . Co-operate with the regulatory authorities to the extent required by the applicable laws and provide information as may be required, without breaching the customer confidentiality agreement;
- . Give appropriate training to the relevant staff for effective implementation of the AML Policy & Procedures.

3. Objectives

The objectives of this Policy are to prevent and deter the use of the Company/Company's services by money launderers or those involved in criminal activities including financing of terrorism and to protect the reputation of the Company. To protect the Company and its employees against unfounded allegations of facilitating money laundering and terrorist financing; and to protect the Company and its employees against any criminal, civil and regulatory actions which might result from inadvertent involvement in money laundering and/or terrorist financing or from failure in operational controls.

4. Appointment of Principal Officer:

The Company shall appoint a Principal Officer, as required under the Prevention of Money Laundering Act, 2002. The Principal Officer is responsible to discharge the legal obligations to report suspicious transactions to the authorities. The Principal Officer will act as a central reference point in facilitating onward reporting of suspicious transactions and assessment of potentially suspicious transactions. In case of any change in the Principal Officer, the information regarding the same would be immediately be informed to Financial Investigation Unit ('FIU').

5. Appoint a Designated Director

As defined in Rule 2 (ba) of the PML Rules, the company shall appoint a Designated Director's who should be responsible for ensuring the compliance with the PMLA requirements; "Designated Director's means a person designated by the reporting entity to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules and includes the Managing Director or a Whole-time Director duly authorized by the Board of Directors.

6. Transaction

"Transaction" means a purchase, sale, loan, pledge, gift, transfer, delivery or the arrangement thereof and includes-

(i) opening of an account; (ii) deposits, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means; (iii) the use of a safety deposit box or any other form of safe deposit; (iv) entering into any fiduciary relationship; (v) any payment made or received in whole or in part of any contractual or other legal obligation; or (vi) establishing or creating a legal person or legal arrangement.

7. Person

In terms of PML Act a person includes: **i.** An individual, **ii.** A Hindu Undivided Family, **iii.** A company, **iv.** A firm, **v.** An association of persons or a body of individuals, whether incorporated or not, **vi.** Every artificial juridical person, not falling within any one of the above persons (i to v), and **vii.** Any agency, office or branch owned or controlled by any of the above persons (i to vi).

8. Officially Valid Documents (OVD)

Means:

1. the Passport
2. the Driving License
3. the PAN Card
4. the Voter Identity card issued by the Election Commission of India.
5. Job card issued by NREGA duly signed by an officer of State Government.
6. Letter issued by the UIDAI containing details of name, address & Aadhaar No.
7. Any other document as notified by the Central Government in consultation with the regulator.
 - i. In respect of low risk category of customers, where simplified measures are applied for verifying the identity of the clients, the following documents shall be deemed to be OVD:
 - a)** identity card with applicant's Photograph issued by Central/ State Government Departments, Statutory/ Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, and Public Financial Institutions; **b)** letter issued by a gazetted officer, with a duly attested photograph of the person.
 - ii. Further, where “simplified measures” are applied, for the limited purpose of proof of address, the following additional documents are deemed to be OVDs:
 - (a)** Utility bill which is not more than two months old of any service provider (electricity, telephone, postpaid mobile phone, piped gas, water bill); **(b)** Property or Municipal Tax receipt; **(c)** Bank account or Post Office savings bank account statement; **(d)** Pension or family pension payment orders (PPOs) issued to retired employees by Government Departments or Public Sector Undertakings, if they contain the address; **(e)** Letter of allotment of accommodation from employer issued by State or Central Government departments, Statutory or Regulatory bodies, Public Sector Undertakings, Scheduled Commercial Banks, financial institutions and listed companies. Similarly, leave and license agreements with such employers allotting official accommodation; and **(f)** Documents issued by Government departments of foreign jurisdictions and letter issued by Foreign Embassy or Mission in India.

9. Other principles

The Company shall ensure the following:

- a) Currently, there are four group companies on which the requirements of PML Act is applicable and they have their separate policies for dealing with ML and TF reflecting the current statutory and regulatory requirements.
- b) The Company shall ensure that the content of these Directives are understood by all staff members.
- c) The Company regularly reviews the policies and procedures on the prevention of ML and TF on an annual basis to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures.
- d) The Company has client acceptance policies and procedures which are sensitive to the risk of ML and TF.
- e) The Company undertakes client due diligence (“CDD”) measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction.
- f) The Company has a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities.
- g) The Company has developed staff members’ awareness programs and vigilance to guard against ML and TF.

Customer Acceptance Policy & Client Identification Procedure

The following customer Acceptance Policy indicating the criteria for acceptance of customers shall be followed by the Company. The account opening team shall accept customer strictly in accordance with the said policy. The client acceptance policies and procedures of the Company is a part of client onboarding process and is periodically reviewed.

Before admitting any person as a customer, the Company shall obtain sufficient information in order to identify the customer and any other person(s) with whom lies the beneficial ownership or ultimate control. The same should be done for all the existing customers as well. This should be done by obtaining 'Know Your Customer' (KYC) information. KYC information should be updated on a regular basis during the course of business relationship. The customer should be identified by the Company using documents/information from reliable sources. Adequate information to satisfactorily establish the identity of each client and the purpose of the intended nature of the relationship should be obtained by the Company. Persons authorised to trade on behalf of the client where an individual client has given authority to another person who is not a relative to trade on its behalf, the matter shall be escalated to Principal Officer. In case the authority is given to a SEBI Registered Intermediary like Portfolio Manager or Investment Advisor, the SEBI registration details of such intermediary shall be taken and kept on record.

The procedure to be followed for admitting a person as a client is as under:

- . Client/Client's Nominee/Company's Sales Executive should submit the account opening form/ client registration form duly filled-in and signed by the prospective client.
- . The Member-Client Agreement should be executed together with the Risk Disclosure Document. The Client should provide all the necessary information required along with the relevant documents.
- . Checking the records with the Client in the barred list. Before opening the client account it is also verified that the client is not a part of the Debarred list. This will help us in not opening erroneously account of a debarred client or entity. The lists used are from; UNSC 1267, UNSC 1988, SEBI Debarred List, Domestic PEP, Arbitration Awards & ANMI ABCD. If a client is found matching with UNSC 1267 or UNSC 1988 we must not open the account and immediately inform the Principal Officer/Management for further action. The Principal Officer then must file an STR immediately. If a client is found matching with SEBI Debarred / Arbitration Awards / ANMI ANCD we would not open the account unless approved by a senior person on a case to case basis. If a client is a politically Exposed Person we will not open the account without prior written consent of the management. And after opening this account will be immediately classified as CSC. The screening will be done for UBO and associated entities also like Directors in a private ltd or partners in a trust or trustees in a trust. Screening will also be done on a continuous basis after the account is opened. The following procedure will be adopted before opening the account;
 - . In person verification of the client as no account is opened in a fictitious / benami name or on an anonymous basis
 - . Verification of documents submitted with original documents

- . Checking of client with screening database consisting of sources mentioned above.
- . Verification of PAN with Income Tax Database.
- . CSC marking if applicable
- . Verification of the client email address and mobile number by calling the client on the mobile number provided.
- . Once all the above are in order the account may be opened after the signatures of the authorized executives.
- . Dispatch Photocopies or email of KYC and Welcome Letter on the postal address or email address mentioned in the account opening form.
- . Welcome Email along with login details of back office and password to clients
- . designated Email address should be sent.

1. Risk Profiling of the Client

We should accept the client based on the risk they are likely to pose. The aim is to identify clients who are likely to pose a higher than average risk of money laundering or terrorist financing. By classifying the clients, we will be in a better position to apply appropriate customer due diligence process. That is, for high risk client we have to apply higher degree of due diligence. In order to achieve this, all clients should be classified in the following category; Low, Medium, High. It is extremely important to understand that the financial risk is different from the Money laundering risk and this will be covered in the training sessions and other interactions that happen with staff in reference to Anti Money Laundering of CFT. All clients, at the time of onboarding shall be classified in low, medium and high risk categories, based on the following parameters;

Meets all four parameters - High Risk
 Meets three parameters - Medium Risk
 Meets two or less parameters - Low risk

- . Parameter 1(Location) - If the clients' location (registered office address, correspondence addresses and other addresses if applicable) is out of India in any of the high risk jurisdictions as defined by FATF.
- . Parameter 2 (business activity) - If the client is dealing in derivatives segment
- . Parameter 3(Trading turnover) - If the turnover of the client is not commensurate with the income/ net worth as provided to BBPL
- . Parameter 4(Manner of payment) - if client attempts to make payments from accounts other than its own bank accounts

2. Implementation of the Risk Profiling Policy

There are two different stages where the risk profiling of the client could be done or upgraded. On boarding Risk: This is the risk profile which is given to the client at the time of registering the client with our organization. Review of Risk constantly after the On Boarding: This is basically continuously review the client and to upgrade the clients risk whenever required from lower level to the higher level. Both above stages are detailed as follows;

On boarding Risk

Once the account opening team has validated client against the customer acceptance policy, special category check, then it is an appropriate time to allot a risk profile to the client. It will be the responsibility of the account opening team to understand if the client falls into the following categories viz. Clients of Special Categories;

1. Non Resident Indians.
2. High Networth Individual clients are clients with disclosed net worth of Rs. 1 Crore or more).
3. Trust / Charitable Organizations / Non-Government Organizations.
4. Close Family Share holdings or beneficial ownership.
5. Politically Exposed Person.
6. Company offering foreign exchange offerings.
7. Client in high risk Country where existence / of money laundering controls is suspected.
8. Non Face to face client.
9. Client with dubious public reputation (Clients whose name appears in the willful defaulters list, negative list of RBI, UNSC 1267, UNSC 1988, SEBI Debarred List, Domestic PEP, Arbitration Awards and ANMI ABCD. The list of the categories are basically special categories, this list could be reviewed and could have more categories. If a client falls into any of the above categories the client should be marked as a “CSC”, client of special category and the risk level immediately should be allocated as “High”.

The above mentioned list is only illustrative and further checks have to be made on case to case Basis. For clients that do not form under the special category mentioned above we take into account other details like Occupation of the client, age of the client. Specific occupations of the client will mean that client will be marked as medium risk. Medium Risk: Business, Agriculture, Student, Professional and Others. In exceptional circumstances the KYC team may allot the “medium” risk to the client if there is a sufficient reason that the client should be above low and not high. Review of Risk constantly after the On Boarding: The ongoing risk review can trigger the client’s risk to be upgraded based on the following parameters or events.

1. Change of the client relationship from Indian to NRI. The risk would be upgraded to “High”.
2. If it is later realized that the client is a High Net Worth client. The risk would be upgraded to “High”.
3. Senior management approval would be obtained 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, the Company shall obtain approval from Director to continue the business relationship.
4. If it is later realized or the existing client is registered foreign exchange dealer the client will have to be upgraded to High risk.
5. If a client is residing in a country which has been recently declared by the FATF as a high risk jurisdiction or an existing client moves base into a high risk jurisdiction then naturally in both the cases client will be immediately upgraded to “High” risk.
6. If a client registers the authorization or gives a power of attorney to operate his account to somebody else, in that case the account is to be upgraded to “High” risk.

7. If it is realized by the management that the existing client's reputation is tainted because of a SEBI debarred or any such announcement then the client will be upgraded to "High"
8. Any employee of the organization could alert the principal officer and request based on any news item or an event in the public domain which can lead the risk to be made high.

Client Onboarding Process

When individual client account opening form is received, all requirements under CKYCR and KRA shall be completed. When non-individual client account opening form is received, all requirements under KRA shall be completed. As and when CKYCR starts accepting non-individual clients, CKYCR process shall be completed even for non-individual clients.

The Company will use the PAN allotted by the Indian Income Tax Department as the main identifier for the identity of all individuals. The PAN as provided shall be independently verified from the Income Tax Database/ databases of other entities authorised by the Income Tax department. All processes like in-person verification, verification of copies against originals, and all other requirements of KRA and CKYCR shall be met at all times diligently.

A public database search of the individual (in case of individual clients) and beneficial owners/ senior management in case of non-individuals clients shall be conducted at the following places:

- PAN number search on Google - Search on Stock exchange provided lists - Search on United Nations databases - Search in other commercial database that the Company may subscribe to. The search shall ensure that 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. If any alerts are generated during the search, then matter shall be escalated to Principal Officer to take a decision whether to open the account or not. Income and networth details shall be taken for all clients on a self-declaration basis. In case of clients trading on derivatives, documentary evidence of financial details as prescribed under SEBI Circular MIRSD/SE/Cir-19/2009 dated 03-Dec-2009 as modified/ updated/ reissued shall be taken.

Where the above details are not available, the account shall not be opened.

3. Transaction Monitoring & Suspicious Transactions Report

Transaction monitoring is an extremely important aspect of the risk profiling system. Whenever the RMS Team sees that a client is doing or having an unusual or a suspicious trading pattern also from the same dashboard sees the income and net worth of the client along with risk level and the special category if any one of the scenarios, then he or she could immediately upgrade the risk of the client from Low to medium or from medium to high or even very high. This risk allocation will happen through the alerts dashboard of the AML system immediately and the RMS team member does not need any approval to do so. Some of the alerts which may lead to suspicion are as follows:

- . Significantly increase in client activity
- . Sudden trading activity in dormant account

- . Clients/Group of Client(s), deal in common scrips
- . Client(s)/Group of Client(s) is concentrated in a few illiquid scrips
- . Client (s) Group of Clients trading in Illiquid Scrips where turnover greater than 10.00 lacs
- . Client(s)/Group of Client(s) dealing in scrip in minimum lot size
- . Client / Group of Client(s) Concentration in a scrip
- . Circular Trading
- . Pump & Dump
- . Wash sales
- . Reversal of Trades
- . Front Running
- . Concentrated position in the Open Interest / High Turnover concentration
- . Order book spoofing i.e. large orders away from market
- . Money In flow / Out Flow in last 7 days
- . Money In flow / Out Flow in last 30 days
- . Money In flow / Out Flow in last 1 year
- . Where Client Turnover is greater than 25% of the market turnover
- . Client trading in penny stock is more than 5.00 lacs
- . Synchronized trades
- . Details of debit and credit transactions due to Off-market or Inter depository transfers, involving 10000 shares or more, or having value of Rs. 500000/- and above , whichever is smaller, in an account, 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 involving 10000 shares or more in an account, in an ISIN, in a single transaction or series of transaction executed during the fortnight.
- . Details of debit and credit transactions involving 'x' shares or more or having value of Rs. 'y' and above, whichever is smaller in an account, in an ISIN, which exceed 10 times the average size of the transaction calculated for the previous months' truncations.
- . Details of Off-market transaction (within CDSL or Inter-depository) where there are more than 50 transactions in an account, for the past fortnight where it can be easily reviewed as and when it may required by the competent Investigation Authority.
- . Any debit transaction in a dormant account for more than 5000 shares or Rs. 500000/- whichever is smaller; will be reported as an alert. An account having no Debit Transaction' in the last 6 months will be considered as dormant account for this purpose.
- . Transactions involving multiple counterparties
- . Transactions involving one counterparty with multiple clients
- . Any other alerts that may require from time to time depending upon the dynamic nature of the markets.

All staff members shall ensure that any transaction and/or activity which is believed to be suspicious is reported to the Principal Officer who shall validate whether the transaction/activity is of suspicious nature or not. However, it should be ensured that there is no discontinuity in dealing with the client until told otherwise and the client should not be told of the report/suspicion. In some cases, customers may abandon transactions on being asked to give some additional

details/documents/information. All regulatory alerts generated by the Market Infrastructure Institutions (MIIs) shall be monitored by the Principal Officer for necessary action to be taken. It is clarified that staff shall report all such attempted transactions in Suspicious Transactions Report, even if they are not executed by customers, irrespective of the amount of the transaction.

System in place to generate alerts for suspicious transaction

Alerts are based on following factors: (a) Sudden disproportionate increase in client's trading. (b) A client trading beyond declared financial capacity. (c) Introducing third party cheques in settlement of pay-in dues. (d) Making off-market transfers to the same demat account(s) immediately after receiving securities in payout. (e) Introducing Demand Drafts in settlement of pay in dues. (f) Any other act that arouses suspicion. If a client is always indulging in one or all of the above in an ongoing manner, we put him/her/it under special watch.

Risk Based Approach

Risk History: It is to be noted that the risk profile would be given a date based concept, so that we know that initially the client was in low risk when the account was opened on 20-06-2008 and then in 11-05-2011 the client was upgraded to medium because some unusual trading pattern was observed and then later upgraded to high on 14-02-2012 by an RMS team member for the reason which may be specified by the user.

Medium Risk: The clients can be classified could be classified into the medium risk category depending on a lot of things like Client wise Large Turnovers , particular Script exposure / trading, client's income range, trading pattern. If any of the client would satisfy the above criteria, depending on the criteria satisfied the same would be classified into medium or high risk.

High Risk: The clients of medium risk could be classified into the high risk category depending on excessive and further unusual, patterns like Client wise Large Turnovers, particular Script exposure / trading, client's income range, trading pattern. If any of the client would satisfy the above criteria, depending on the criteria satisfied the same would be classified into high risk.

4. Maintaining & Retaining Records

All the necessary records pertaining to the broking and depositories operations such as 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 to must be kept for the minimum period of 5 years in a place We should maintain and preserve the record of information related to transaction whether attempted or executed, which are reported to 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 the intermediary. Further, in respect of transactions referred to in Rule 3 of PML Rules following are also to be maintained and preserved:

- the nature of the transactions;
- the amount of the transaction and the currency in which it is denominated;

- the date on which the transaction was conducted; and
- the parties to the transaction.

The Company 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. The Company 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 behaviour. Should there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account.

To enable this reconstruction, the Company shall retain the following information for the accounts of their clients in order to maintain a satisfactory audit trail:

- the beneficial owner of the account;
- the volume of the funds flowing through the account; and
- for selected transactions:
 - the origin of the funds
 - the form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
 - the identity of the person undertaking the transaction;
 - the destination of the funds;
 - the form of instruction and authority.

5. Action on Reported Suspicious Transactions & Cash Transactions

All reported suspicious transactions of any customer(s) with suspicious identity should be reviewed by the Principal Officer thoroughly. After thorough verification & confirmation of transactions which are suspicious in nature, the same should be immediately (not later than 7 days) reported to FIU, Ministry of Finance, New Delhi in writing.

(i) Reporting to Financial Intelligence Unit – India (FIU-IND): Principal Officer of the Company shall act as a central reference point in facilitating onward reporting of transactions to FIU-IND and for playing an active role in the identification and assessment of potentially suspicious transactions. Principal Officer of the Company shall submit Cash Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) as prescribed under Rule 3, notified under the PMLA to:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat,
Chanakyapuri, New-Delhi – 110021
<http://fiuindia.gov.in/>

This policy shall be reviewed as and when there are any changes introduced by any statutory authority or as and when it is found necessary to change the policy.

6. Investigation

Upon notification to the Principal Officer/Designated Directors, an investigation will be commenced to determine if a report should be made to appropriate law enforcement or regulatory agencies. The investigation will include the review of all available information. If the results of the investigation warrant, a recommendation will be made to file a Report with the appropriate law enforcement or regulatory agency. The Principal Officer is responsible for any notice or filing with law enforcement or regulatory agency. Investigation results will not be disclosed or discussed with anyone other than those who have a legitimate need to know.

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

In case if any client is found to be guilty under the PMLA provisions then the following procedure to be followed by the Company, will be as under: If the particulars of any of customer/s match the particulars of designated individuals/entities, the Company 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. The Company would also convey the information through e-mail at jsis@nic.in. The Company would inform the IS-I Division of Ministry of Home Affairs HA so that they may take effective action like informing the State Police and /or the Central for conducting the verification of the individuals/ entities identified by the registered intermediaries The Company to provide full support to the appointed agency for conducting of the verification so that the verification gets completed within a period of 5 working days. The Company would not provide any prior notice to the designated individuals/entities.

Procedure for unfreezing of funds, financial assets or economic resources or related services of individuals/entities inadvertently affected by the freezing mechanism

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, can move an application giving the requisite evidence, in writing, to the Company. The Company then 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 Ministry of Home Affairs (MHS) within two working days. Then 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 Company. 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.

8. Hiring of Employees

All employee accounts will be subjected to the same AML procedures as the customer accounts, under the supervision of the Principal Officer. Adequate screening procedures to be in place to ensure high standards when hiring employees, having regard to the risk of money laundering and terrorist financing and the size of the business, we ensure that all the employees taking up such key positions are suitable and competent to perform their duties.

9. Training of Employees

All new staff, whether permanent, temporary or on contract, who may be involved in handling customers' on-boarding, execution of transactions must receive suitable induction training to ensure that they fully understand their responsibilities under the Company's AML Policy & Procedures. Such training shall inter-alia cover following topics:

- . What is money-laundering?
- . Company's requirements and obligations under the AML Policy & Procedures.
- . Company's legal or regulatory requirements and the risk of sanctions/penalties for staff as well as the Company.
- . Reporting requirements as prescribed by SEBI.
- . The role played by Company's Principal/Compliance Officer in money laundering deterrence.
- . The need to protect the Company's reputation.

Staff in high-risk areas should receive appropriate training to enable them to understand the anti-money laundering techniques which are likely to be used in the area, and to remind them of their personal responsibilities under the Policy and local legal requirements. Annual refresher training courses should be conducted for staff in high-risk areas to remind them of their responsibilities and alert them to any amendments to the Company's AML Policy & Procedures or local legal and/or regulatory requirements, as well as any new anti-money laundering techniques being used.

10. Investors Education

As the implementation of AML / CFT measures being sensitive subject and requires us to demand and collect certain information from investors which may be of personal in nature or has hitherto never been called for, which information include documents evidencing source of funds / income tax returns / bank records etc. and 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 the clients about these requirements, as the ones emanating from AML and CFT framework.

11. Approval Authority

Any modification to this policy shall be approved by the Board of Directors.

Further Information

Any queries or doubts concerning Company AML Policy & Procedures or any local legislation or regulation or Circulars or Guidelines relating to Anti Money Laundering and/or Combating Financing of Terrorism shall be referred to the Principal Officer of the Company. The Policy will be reviewed once in a year or as and when required and will be presented before the board in the board meeting. The Company has made the PMLA policy which is informed to the Investors through the company's website www.vlssecurities.com.

12. Review Policy

Due to business needs the policy shall be reviewed by the Managing Director/CEO and place the changes in policy before the Board at the meeting first held after such changes are introduced.

Client KYC periodic review

- a. the KYC of all clients shall be reviewed and updated on a five yearly basis.
- b. For CSC and High Risk Clients, the KYC shall be reviewed and updated every three years.
- c. For PEP, the KYC shall be reviewed and updated every two years.

13. Policy communication:

A copy of this policy shall be made available to all the relevant staff/persons such as: compliance officer / department in-charge of registration of clients and sub-broker /authorized persons. Further, a copy of this policy shall be displayed on our website: www.vlssecurities.com

Internal Control Policy with respect to Broking

1. Client Due Diligence:

In opening Client Accounts, we apply the usual client due diligence measures prescribed under KYC norms i.e. understanding the ownership and control structure of the client etc. The format in which we conduct the client due diligence is part of our KYC form. We do not entertain walk-in clients and prefer clients known to us through some known contacts. The due diligence measures on a risk sensitive basis is a part of client onboarding and is periodically reviewed.

2. Beneficial Owner Identification

Verification of the client's identity is done using reliable, independent source documents, data or information. Identifying beneficial ownership and control, i.e. determining which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted through obtaining sufficient information in order to identify persons who beneficially own or control the securities account. 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. *Explanation:* Controlling ownership interest means ownership of/entitlement to:

- i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;
- ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or
- iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals or

exercised through voting rights, agreement, arrangements or in any other manner.

It is not necessary to identify and verify the identity of any the client if it is listed company. In case the client is a Trust 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. For Company's foreign clientele due diligence may 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.

The compliance of the aforementioned provisions on identification of beneficial ownership shall be monitored by the Board of Directors of the Company.

3. Assessment of financial capability of client:

We take from clients networth/financial standing details which has to be supported by one of the following documents:

(a) Copy of ITR acknowledgement. (b) Copy of Annual Returns. (c) Copy of Form No. 16: In case of salary income. (d) Networth certificate from a Chartered Accountant. (e) Salary slip duly stamped, signed by employer. (f) Bank Account Statement for last six months. (g) Copy of Demat Account holding statement. (h) Any other document substantiating ownership of assets.

4. Process of record keeping and retrieval of client registration documents

All client registration documents, once checked, found complete and verified as such and the accounts opened, are securely stored.

5. Updation of client financial and other client particulars

Regular due diligence and scrutiny of the client accounts throughout the course of the business relationship to ensure that the transactions are conducted with the knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds. Periodically updation of all documents, data or information of all clients and beneficial owners are to be collected under the due diligence process. We send to all our clients on an annual basis:

- (a) Client Detail
- (b) Self-declaration for financial status asking them to confirm details in client-master and update the financial particulars. It is an annual exercise of updation of client particulars.

6. Client Master Modification:

On an annual basis, there is a regular updation happening. However, in between, if the client wants to modify any details, he/she/it is enabled to do so by filling up a Client Master Modification Form and submitting to us the documentary proof of modified detail.

7. Systems and Process adopted for UCC upload

From our back-end, we generate file for the client containing data of market segment, client code, client name, PAN, address in the format prescribed by NSE. The data generated are thereafter verified with KYC. On the data being found fully correct, the client detail is uploaded on UCC – site of NSE. After uploading, we run a check, on the UCC-site, by entering the specific client, whether or not the client details are actually uploaded on UCC-site. The KYC details of the clients are dealt with in the manner prescribed in the “KYC Registration Agency (KRA) System by the intermediaries” mandated by SEBI.

8. Process of client code closure

First the client has to give a request for closure of the account. On receipt of such request, the account is checked for any outstanding balance either debit or credit. If it is a debit balance, the client is asked to clear it. In case of a credit balance, the same is paid to the client. Similarly, a check is carried out in the back office to ascertain :

(i) the securities lying with us as margin or pending pay-out to the client.

(ii) whether the client has any outstanding position in F&O segment (NSE), Currency Derivatives or outstanding pay-in position of securities or a pay-out from Exchanges in pipeline. In case of any outstanding position, we either let the client pay the same, (if it is an owing) or wait for the transaction to come to a close so that we can crystallize either the client's liability for pay-in or our liability to settle the securities due to the client.

(iii) Whether any notice issued to the client is pending reply and any liability arises to the company or client as a result of client's action / inaction for which the notice has been issued. Once the client is cleared for closure, the client's account is closed.

9. Precaution with respect to dormant accounts

All dormant accounts (inactive for six months and more) are treated as inactive and no transactions are allowed. However, a client can re-activate his/her/its dormant account by giving us in writing a request to activate the account. Once an active becomes dormant immediate steps shall be taken for transfer of all assets of the client, such as credit balances, holding of securities or assets in any other form, to the client.

10. Risk Management Policy:

All outstanding debit balances of Rs. 50,000 or more are monitored on a daily basis. No such debit is allowed to remain in books beyond five days. After five days, effective measures are taken for recovery of dues from the clients. In case of smaller debit balances, regular follow up is done with the clients for recovery of dues. Pay-in funds and securities must be completed by the close of the working hours on the day next to the trading. However, securities can be paid in maximum by 9:30 AM on the (T+2) day, that is on the second day from the trading day. If not, they go for auction and the auction loss has to be borne by the client. In case of non pay-in of funds, we do make the pay-in but securities are not released until the client makes the pay-in. Clients are given the cheques for their dues on the very day the pay-out is received from the Stock Exchange. However, clients maintaining their account on a running basis do not take their pay-out on a transaction-to –transaction basis. Whenever, they want the pay-out, they inform us and the credit balance (which has become due – a credit balance for which the exchange pay-out is not received is considered not due) is released to the client.

11. Internal Shortage

The policy and procedure for settlement of shortages in obligations arising out of internal netting of trades is as under:

- a) The short delivering client's account is debited by an amount equivalent to 20% above of closing rate of day prior to Pay-in / Pay-out Day. The securities delivered short are purchased from market on T+2 day and the purchase consideration (inclusive of all statutory taxes & levies) is debited to the short delivering seller client along with reversal entry of provisionally amount debited earlier.
- b) If securities cannot be purchased from market due to any force majeure condition, the short delivering seller's accounts is debited at the closing rate on T+3 day or Auction day on Exchange +10% where the delivery is matched partially or fully at the Exchange Clearing, the delivery and debits/ credits shall be as per Exchange Debits and Credits.
- c) In cases of securities having corporate actions all cases of short delivery of cum transactions which cannot be auctioned on cum basis or where the cum basis auctioned on cum basis or where the cum basis auction payout is after the book closure/record date, would be compulsory closed out at higher of 10% above the official closing price on the auction day or the highest traded price from first trading day of the settlement till the auction day.

12. Policy for transfer of trades

We have a strict policy with respect to client code change. Inadvertent errors are inevitable. We permit client change after thorough scrutiny after fully satisfying ourselves the genuineness of the request.

13. Investor Redressal Mechanism

All complaints received through letter, e-mail and personal representation (we urge upon client to put it in writing and give it to us) are duly recorded by us and measures taken for their redressal.
