

**Anti Money Laundering Policy & Procedures**

**VLS SECURITIES LIMITED  
(Stock Broker- Members NSE)**

**POLICY FOR PREVENTION OF MONEY LAUNDERING - AS PER 'ANTI MONEY  
LAUNDERING ACT, 2002' - AS AMENDED UPTO LAST REVIEWED DATE  
12.03.2016**

## **ANTI MONEY LAUNDERING POLICY & PROCEDURES**

### **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.

### **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;

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“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;
  - 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.
- Protect the Company and its employees against unfounded allegations of facilitating money laundering and terrorist financing; and
- 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 FIU.

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### **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. 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;

- 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.
- 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

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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
- 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.

### **7. 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

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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.

### **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 categories mentioned below;

1. N RI
2. HNI (High Networth Clients are clients with disclosed net worth of Rs 1 Crore or more)
3. Trust / Charitable Organizations / NGO ( Non Government Organizations)
4. Close Family Share holdings or beneficial ownership
5. Politically Exposed Person

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6. Company Offering foreign exchange offerings
7. Client in high risk Country
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".

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. If in future it is known that a client is PEP then apart from seeking permission from the management to continue the relationship, the client should be immediately upgraded to High risk

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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.

### **8. Transaction Monitoring:**

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



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- Front Running
- Concentrated position in the Open Interest / High Turnover concentration
- Order book spoofing i.e. large orders away from market
- Money In flow in last 7 days
- Money In flow in last 30 days
- Money In flow in last 1 year
- Money out flow in last 7 days
- Money out flow in last 30 days
- Money 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, rematt 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.

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- 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.

Maintaining Risk History and reason for upgrade or degrade or allocation of

**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.

### **9. 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

where it can be easily reviewed as and when it may required by the competent Investigation Authority.

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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.

### **10. Reporting of Transactions including Suspicious Transactions**

- (i) 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.
- (ii) In some cases, customers may abandon transactions on being asked to give some additional details/documents/information. 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.

### **11. 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/>

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### **12. Hiring of Employees:**

Adequate screening procedure must be in place to ensure high standard while hiring the employees- with regards to competency level. The staff should be provided adequate training to understand the AML and CFT procedures. Training must be given by Professional either from within or outside the organization.

### **13. Training**

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.
- (i) 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.
- (ii) 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.

### **14. Approval Authority:**

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

### **15. Review Policy:**

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

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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.

### **16. 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 [atjsis@nic.in](mailto:atjsis@nic.in).
- The Company would inform the IS-I Division of MHA 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.

### **17. 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.

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### **18. Other Points**

- 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 and the company is also carrying out Investor Education initiative by explaining the investors about the PMLA rules & requirements.

### **19. 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.

- 20.** Further, a copy of this policy shall be displayed on our website:  
[www.vlssecurities.com](http://www.vlssecurities.com)