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ANTI MONEY LAUNDERING POLICY

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ADINATH STOCK BROKING PVT LTD STOCK BROKER

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ANTI MONEY POLICY FOR LAUNDERING

1. Background

Pursuant to the recommendations made by the Financial Action Task Force on anti-money laundering standards, SEBI had issued the Guidelines on Anti Money Laundering Standards vide their notification No.ISD/CIR/RR/AML/1/06 dated 18 January 2006 and vide letter No.ISD/CIR/RR/AML/2/06 dated 20 March 2006 had issued the obligations of the intermediaries registered under Section 12 of SEBI Act, 1992. As per these SEBI guidelines, all intermediaries have been advised to ensure that proper policy frameworks are put in place as per the Guidelines on Anti Money Laundering Standards notified by SEBI.

2. What is Money Laundering?

a. A Money Laundering can be defined as engaging in financial transactions that involve income derived from criminal activity, transactions designed to conceal the true origin of criminally derived proceeds and appears to have been received through legitimate sources/origins.

3. Prevention of Money Laundering Act, 2002

a. Prevention of Money Laundering Act, 2002 (PMLA 2002) forms the core of the legal framework put in place by India to combat money laundering. PMLA 2002 and the Rules notified there under came into force with effect from July 1, 2005.

b. The PMLA 2002 and Rules notified there under impose an obligation on intermediaries (including stock brokers and sub-brokers) to verify identity of clients, maintain records and furnish information to the Financial Intelligence Unit (FIU) - INDIA

4. Financial Intelligence Unit (FIU) – INDIA

a. The Government of India set up Financial Intelligence Unit-India (FIU-IND) on November 18, 2004 as an independent body to report directly to the Economic Intelligence Council (EIC) headed by the Finance Minister. FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transactions. FIU-IND is also responsible for coordinating and stretching efforts of national and international intelligence and enforcement agencies in pursuing the global efforts against money laundering and related crimes.

5. Policy of Adinath Stock Broking Pvt Ltd

Adinath Stock Broking Pvt Ltd has resolved that it would, as an internal policy, take adequate measures to prevent money laundering and shall put in place a frame-work to report cash and suspicious transactions to FIU as per the guidelines of PMLA Rules, 2002

Objective of these Guidelines

a) The purpose of this document is to guide all the employees of ASBPL and employees of its associates on the steps that they are required to take and implement to prevent and identify any money laundering or terrorist financing activities. It shall be the responsibility of each of the concerned employees that they should be able to satisfy themselves that the measures taken by them are adequate, appropriate and follow the spirit of these measures and the requirements as enshrined in the "Prevention of Money Laundering Act, 2002".

b) Some of these suggested measures may not be applicable to every circumstance or to each department, Branch / Sub-broker. However, each entity should consider carefully the specific

nature of its business, type of customer and transaction to satisfy itself that the measures taken by the employees are adequate and appropriate to follow the spirit of these guidelines.

7. Implementation of this Policy

7.1 Mr. Vijay Ginodiya the Designated Director & Compliance Officer will be the Principal Officer who will be responsible for

- a. compliance of the provisions of the PMLA and AML Guidelines
- b. act as a central reference point and play an active role in identification & assessment of potential suspicious transaction
- c. Ensure that our company discharges its legal obligation to report suspicious transactions to the concerned authorities.

7.1 The main aspect of this policy is the Customer Due Diligence Process which means:

- a. Obtaining sufficient information about the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted.
- b. Verify the customer's identity using reliable, independent source document, data or
- c. Conduct on-going due diligence and scrutiny of the account/client to ensure that the transaction conducted are consistent with the client's background/financial status, its activities and risk profile.

7.3 The Customer due Diligence Process includes three specific parameters:

- a. Policy for Acceptance of Clients
- b. Client Identification Procedure
- c. On going scrutiny of Fund & Security
- d. we will update the documents regarding CDD once in a year.

8. Customer Acceptance Policy

a. Each client should be met in person: Accept client whom we are able to meet personally. Either the client should visit the office/branch or concerned official may visit the client at his residence / office address to get the necessary documents filled in and signed. As far as possible, ensure that the new client is introduced by an existing client.

b. Accepts clients on whom we are able to apply appropriate KYC procedures: Obtain completes Information from the client. It should be ensured that the initial forms taken by the clients are filled in completely. All photocopies submitted by the client are checked against original documents Without any exception All supporting documents as specified by Securities and Exchange Board Of India (SEBI) and Exchanges are obtained and verified

c. Do not accept clients with identity matching persons known to have criminal background whether the client's identify matches with any person having known criminal background or is not banned in any other manner, whether in terms of criminal or civil proceedings by any Enforcement/regulatory agency worldwide

d. Be careful while accepting 'Clients of Special category'

We should be careful while accepting clients of special category like NRIs, HNIs, Trust, Charities, NGOs, Politically Exposed Persons (PEP), persons of foreign origin, companies having closed share holding/ownership, companies dealing in foreign currency, shell companies, overseas entities, clients in high risk countries, non face to face clients, and clients with dubious background. Current/Former Head of State, Current/Former senior high profile politician, Companies offering foreign exchange, etc.) Or clients from high-risk countries (like Libya, Pakistan, Afghanistan, etc.) or clients belonging to countries where corruption/fraud level is high (like Nigeria, Burma,etc). Scrutinize minutely the records / documents pertaining to clients belonging to aforesaid category

Guidelines on Identification of Beneficial Ownership:

For non-individual customers as part of the due diligence measures sufficient information must be obtained in order to identify persons who beneficially own or control 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 should be identified and verified using client identification and verification procedures as early as possible. 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(s) is/are being conducted. It includes persons who exercise ultimate effective control over a legal person or arrangement.

e. Do not accept client registration forms which are suspected to be fictitious: Ensure that no account is being opened in a fictitious / benami name or on an anonymous basis. Client's account should

f. Do not compromise on submission of mandatory information / documents: Client's account should be opened only on receipt of mandatory information along with authentic supporting documents as per the regulatory guidelines. Do not open the accounts where the client refuses to provide information / documents and we should have sufficient reason to reject the client towards this reluctance.

9 Customer Identification Procedure (FOR NEW CLIENTS)

Objective To have a mechanism in place to establish identity of the client along with firm proof of Address to prevent opening of any account which is fictitious / benami / anonymous in nature.
a Documents which can be relied upon:

b. PAN Card: PAN card is mandatory and is most reliable document as only one card is issued to an Individual and we can independently check its genuineness through IT website.

b. IDENTITY Proof PAN Card itself can serve as proof of identity. However, in case PAN card carries an old photograph of the holder, which does not match current facial features of the client, we should take other identity proof in form of Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card.

d. ADDRESS Proof For valid address proof we can rely on Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client.

9.1 Documents to be obtained as part of customer identification procedure for new clients:

In case of individuals, one copy of the following documents have to be obtained :

As PAN is mandatory, verify its genuineness with IT website and cross verify the PAN card copy with the original Please put "verified with original" stamp as proof of verification Other proofs for identity are Voter's Identity card, Passport, Ration Card or any Government/PSU/Bank issued photo identity card or any other document prescribed by the regulatory authorities. Address proof in the form of Voter's Identity Card, Passport, Bank Statement, Ration card and latest Electricity/telephone bill in the name of the client or any other document prescribed by the regulatory authorities.

In case of corporates, one certified copy of the following documents must be obtained:

Copy of the Registration/Incorporation Certificate

Copy of the Memorandum & Articles of the Association

Copy of the PAN card and the Director Index No. (DIN)

Copy of the latest audited Annual Statements of the corporate client

Latest Net worth Certificate

Latest Income Tax return filed.

Board Resolution for appointment of the Authorized Person who will operate the account.

Proof of address and identity of Authorized Person

In case of partnership firm one certified copy of the following must be obtained:

Registration certificate
Partnership Deed
PAN card of partners
Authorization letter for the person authorized to open and operate the account
Proof of identity and address of the authorized person.
Annual statement/returns of the partnership firm

In case of a Trust, one certified copy of the following must be obtained:

Registration certificate
Trust Deed
PAN card
Authorization letter for the entity authorized to act on their behalf
Officially valid documents like PAN card, voters ID, passport, etc of person(s) authorized to transact on behalf of the Trust.

In case of unincorporated association or a body of individuals, one certified copy of the following must be obtained:

Resolution of the managing body of such association or body of individuals
PoA in favour of person authorized to transact
Officially valid documents like PAN card, voters ID, passport, etc of the person(s) authorized to transact. Any document required by Adinath Stock Broking Pvt Ltd to establish the legal existence of such an association or

In case of an NRI account - Repatriable/non-repatriable, the following documents are required:

Copy of the PIS permission issued by the bank
Copy of the passport
Copy of PAN card
Proof of overseas address and Indian address
Copy of the bank statement
Copy of the demat statement
If the account is handled through a mandate holder, copy of the valid PoA/mandate

10. General Guidelines

- Always check original documents before accepting the copies
- Obtain the latest photograph of account holder/ authorized person(s)
- Check for latest IT return of the client/ Net worth Certificate for ascertaining the financial status of the client to know the client suitability of the product being sold to the client
- Review the above details on-going basis to ensure that the transactions being conducted are consistent with our knowledge of customers, its business and risk profile, taking into account, where necessary, the customer's source of funds.
- Scrutinize the forms submitted by the client thoroughly and cross check the details with various documents obtained like source of income. If required, ask for any additional details like salary slips, etc. to satisfy yourself whenever there is a doubt.
- For scrutiny / background check of the clients, websites such as www.watchoutinvestors.com should be referred. Also, Prosecution Database / List of Vanishing Companies available on www.sebi.gov.in and RBI Defaulters Database available on www.cibil.com can be checked.
- Keep watch on the welcome kits returned with reason - undelivered. Business Head should be alerted, client be contacted immediately on telephone and the trading, if suspected, should be suspended
- Employee of Adinath Group should not preferably sign as witness on the CRF

➤ If Employee of Adinath Group introduces the client, exact relation of the client with such employee should be documented.

For all Existing clients

8.4.1. On an on-going basis, the branches should ensure that the details given in the KYC, by the client, matches with the current details of the client. If required, we can seek additional documents/information from the client to verify the financial/general status of the client.

10.1 In cases where:

- There is any material negative change in the financial details of the client from what is given in the KYC.
- If the client is not contactable/traceable or contracts notes/ communications sent are received back undelivered.
- In case the client is prohibited by any regulatory authority.
- The client refuses to provide additional information/document asked for.
- There is a material change in the mandate holder profile/details

Branches should immediately bring the same to the notice of the Business Head. The Business Head will, in turn, discuss the same with the Principal Officer to decide on the necessary course of action, including reporting to FIU, New Delhi.

11. Risk Profiling of the Client

a) We should accept the clients 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. For this purpose, we need to classify the clients as Low risk, medium risk and high risk clients.

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. The factors of risk perception depend on client's location, nature of business activity, turnover, nature of Transaction, manner of payment etc.

b) In order to achieve this objective, all clients of the branch should be classified in the following Category:

b) Category A (Low Risk)clients are those pose low or nil risk. They are good corporate/HNIs who Have a respectable social and financial standing. These are the clients who make payment on time And take delivery of shares.

c) Category B (Medium Risk) clients are those who are intra-day clients or speculative clients. These are the clients who maintain running account with Adinath Stock Broking Pvt Ltd.

d) Category C (High Risk)clients are those who have defaulted in the past, have suspicious Background, do not have any financial status, etc.

e) We have to be careful while monitoring the transactions of B and C category clients.

f) Apart from this we need to exercise extra caution while monitoring the transactions of NRI/NRE/PIO and foreign clients, especially when the payment is being made in foreign currency.

g) Any change in the risk profile of the client/mandate holder, has to be ascertained by the concerned branch officials, and reported to the Compliance Officer.

12. Mandate Holder Policy

a) The primary objective of this policy is to ensure that we are aware as to who is the ultimate beneficiary of the transaction and that the transactions executed, through the mandate holder are bonafide.

b) It is possible that some of the individual clients might appoint a mandate holder. Normally the trading account is opened in the name of various family members and one the family member

will hold the mandate. Also, in case of some NRI clients who are based abroad, there may be on a PoA/Mandate in favour of a person residing in India

c) Whenever any account is operated by a mandate holder, find out the relationship of the mandate holder with the client, followed by establishing the identity of the mandate holders by obtaining proof of identity and address.

d). Do not accept any payment from the account of mandate holder in favour of the client. All the payments have to be received from the client's bank account only for which the PoA holder may or may not have the mandate to operate the bank account. Similarly pay-out cheques should be issued only in the name of the client and not in the name of the mandate holder.

e) In case there is suspicion on the relationship between the mandate holder and the actual client or in case behavior of the mandate holder is suspicious, do take necessary advice from the Business Head.

12. Roles

Relationship Manager/ Dealer/ Branch Manager/ Branch Coordinator/ Business Head

- The RM/ Dealer/ BM/ Coordinator should meet the client in person at least once before opening the account at the address given by the client. In the process he may reasonably verify the living standards, source of income, financial status, etc. of the client and ensure that the details mentioned in the CRF (Client Registration Form) matches with the actual status.
- If the client is a 'walk-in client', then the concerned branch official should make independent verification about the background, identity and financial worthiness of the client.
- All mandatory proofs of identity, address and financial status of the client must be collected as prescribed by the regulatory authorities, from time to time. The proofs so collected should be verified with the originals. If the prospective client is refusing to provide any information do not forward his/ her account opening form to HO.
- IN PERSON VERIFICATION can do by SUB BROKER for SUB BROKER Clients.
- The Business Head has to be completely satisfied about the background, genuineness and financial status of the client before recommending for opening the account. If required, the Business Head may seek additional information/documents from the client.
- If the account is to be handled by a PoA /mandate holder, then find out what is the relationship between the client and the PoA/Mandate holder, establish the identity and background of the client and the PoA/Mandate holder (by obtaining the required documents) and ensure that the PoA/Mandate Holder has the proper authorization.
- In case of a corporate account, the branch officials should ensure that the authorized person has got the required mandate by way of Board Resolution. Also, the identity and background of the authorized person has to be established by obtaining the required documents.
- Foreign clients can deal in Indian market only to sell the shares allotted through ESOP or buy/sell as a 'foreign direct investment'. We cannot deal for foreign clients under any other circumstances.

- Please consult the Zonal/ Country Business Head before dealing with any NRE, NRO, PIO or foreign clients.

12. Risk Management Team

Risk Management Team (RMT) gives exposure to clients based on margin available in the system and clean exposure to selected clients based on recommendations of the Business Managers. It is also the duty of RMT to validate such exposures with the financial details provided by the client in KYC forms. **Where there is a trading**

Monitoring Of Transactions

- Scrutinize unusually large transactions like, clients having traded in scrip/shares of a company for a quantity of 20,000 or more in a single day and volume in that scrip of that client is 25% or more of the total volume in that scrip of the Exchange.
- Check trade log for indication of negotiated trades (if any)
- Check for any relation of the client with the company / directors / promoters.
- Check previous trading pattern of the clients in that particular scrip.
- Scrutinize bulk deal transactions by sample check. A 'bulk' deal constitutes transaction in a scrip (on each Exchange) where total quantity of shares bought/sold is more than 0.5% of the number of equity shares of the company listed on the Exchange
- Select randomly few clients and pick their few transactions and scrutinize to check whether they are of suspicious nature or not.
- If substantial increase in turnover in a dormant account is found, should be brought into the notice of the senior management. Review balances and trading in the dormant accounts. Be vigilant on the movement of credit balances of the dormant account.
- Analysis is carried out by RMT to identify clients with huge and regular losses and are still placing trades/orders. Identify the Sources of funds in such cases.
- Analysis be also carried out in respect of disproportionate profit/ loss booked by a client trading in "F&O" segment vis-à-vis the value of the contract in illiquid scrips/ derivatives
- Suspicious transactions to include 'transactions integrally connected' as well as 'transactions remotely connected or related'

Parameters for analyzing the transactions:

- Analysis of top clients in terms of turnover

On a periodic basis identify top 200 clients on descending order of turnover and ascertain whether the same matches with the financial status of the client. Moreover, analyze whether there is commensurate fund movement, whether the payments are being made, in cheque and from the bank account(s) of the clients registered with ASBPL etc. To the extent possible, obtain the latest Income Tax return of the client to ascertain the financial capacity of the client.

- Analysis of top client in terms of increase in turnover

On a periodic basis identify the top 100 clients, on descending order of increase in turnover over a threshold amount of Rupees One Crore. Then analyze whether the same matches with the financial status of the client, whether there are commensurate funds movement, whether the payments are being made through cheque from the bank account(s) of the client, etc. To the

extent possible, we need to obtain the latest Income Tax return of the client to ascertain the level of income of the client.

➤ Matched trades (where the buy and sell clients are with the same broker)

On a daily basis identify the matched trades (where the buy and sell orders are from same/different branches of ASBPL in B1, B2 & group and penny stocks). Further analyze whether the client are indulging in any sort of manipulation like shifting of profits from one account to another, creating artificial volumes, circular trading, indulging in price manipulation, shifting the beneficial ownership of shares, etc.

➤ Analysis of trades in stocks less than Rs.10/- and beyond a specific quantity

On a daily basis analyze the trades done in penny stocks (stocks less than Rs.10/-). This will help us in identifying whether the client is indulging in any sort of manipulation like creation of artificial volume, artificial price movement, circular trading, etc.

➤ Client concentration in particular scrip or select scrips

On a periodic basis, ascertain whether any client is concentrating on any particular scrip, especially liquid and penny stocks. This will help in identifying whether the client is indulging in any sort of manipulation like creation of artificial volume, artificial price movement, circular trading, etc. or is having insider information.

➤ Analysis of trades in illiquid counter (illiquidity can be with reference to the average volume in the scrip over the last 3 months below a particular level)

A daily analysis of the client's volume with respect to the total traded volume at the exchange has to be done. (TTO analysis). This will help in identifying whether the client is indulging in any sort of manipulation like creation of artificial volume, artificial price movement, circular trading, etc.

➤ Trades shifted from one client to another within the same broker

On a daily basis, analyze the details of trade shifted from one client to another, either during the market hours or after the market hours. This will help us in identifying whether the client is trying to hide his identity, indulging in profit/loss transfer, availing exposure while in debit balance, etc.

➤ Analysis of NRI/Foreign clients/institutional trades especially w.r.t. payment patterns

Undertake a periodic analysis of the trades executed by NRI/Foreign clients/institutional clients. It should be supplemented by analysis of the payment patterns, trading patterns, etc. With respect to the institutions, analyze all the cancelled trades and DVP trades to see whether the institutional code is being misused. In such cases, also ascertain who the ultimate beneficiary of the trades.

➤ Analysis of client payments in DD, Pay order, cash etc.

Undertake a periodic analysis of all the payments received from client by way of DD/Pay order. This will help in ascertaining whether any client's DD/ Pay Orders have been purchased against "Cash" or might whether any client is making third party payments. The third party payments can relate to employees also.

activity of the client, which is not commensurate with the financial details declared by the client, it should be analyzed and referred to the Principal Officer with reasons of suspicion.

13. Suspicious Transactions

All are requested to analyze and furnish details of suspicious transactions, whether or not made in cash. It should be ensured that there is no undue delay in analysis and arriving at a conclusion.

- a) What is a Suspicious Transaction: Suspicious transaction means a transaction whether or not made in cash, which to a person acting in good faith -
- b) Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- c) Appears to be made in circumstance of unusual or unjustified complexity; or
- d) Appears to have no economic rationale or bona fide purpose

Reasons for Suspicious:

Identity of client

- a. False identification documents
- b. Identification documents which could not be verified within reasonable time
- c. Non-face to face client
- d. Clients in high-risk jurisdiction
- e. Doubt over the real beneficiary of the account
- f. Accounts opened with names very close to other established business entities
- g. Receipt back of well -come kit undelivered at the address given by the client Suspicious Background Suspicious background or links with criminals

Multiple Accounts Large number of accounts having common parameters such as common partners / directors / promoters / address/ email address / telephone numbers introducer or authorized signatory unexplained transfers between such multiple accounts. Activity in Accounts

- a. Unusual activity compared to past transactions
- b. Use of different accounts by client alternatively
- c. Sudden activity in dormant accounts
- d. Activity inconsistent with what would be expected from declared business s
- e. Account used for circular trading

Nature Of Transactions

- a. Unusual or unjustified complexity
- b. No economic rationale or bonafied purpose
- c. Source of funds are doubtful
- d. Appears to be case of insider trading
- e. Purchases made on own account transferred to a third party through an off market
- f. transactions through DP account
- g. Transactions reflect likely market manipulations
- h. Suspicious off market transactions

Value Of Transactions

- a. Value just under the reporting threshold amount in an apparent attempt to avoid reporting
- b. Large sums being transferred from overseas for making payments
- c. Inconsistent with the clients apparent financial standing
- d. Inconsistency in the payment pattern by client
- e. Block deal which is not at market price or prices appear to be artificially inflated/deflated

What to Report

- a. The nature of the 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.
- e. The reason of suspicion.

14. Employees Hiring and Training

a) Hiring of Employees

We shall have adequate screening procedures in place to ensure high standard when employees. It shall identify the key positions within our structure having regard to the risk of money laundering and terrorist financing.

b) **Training Programs**

We will develop ongoing employee training under the leadership of the AML Compliance Officer and senior management. Our training will occur on at least an annual basis. It will be based on our firm's size, its customer base, and its resources.

Our training will include, at a minimum: how to identify red flags and signs of money laundering that arise during the course of the employees' duties; what to do once the risk is identified; what employees' roles are in the firm's compliance efforts and how to perform them; the firm's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the FIU IND.

We will develop training in our firm, or contract for it. Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos. We will maintain records to show the persons trained the dates of training, and the subject matter of their training.

We will review our operations to see if certain employees, such as those in compliance, margin, and corporate security, require specialized additional training. Our written procedures will be updated to reflect any such changes.

15. Formulate/Review/Training On The Internal Policy And Procedure To All Staff/Sub-Brokers

- This internal policy and procedure on "The Prevention of Money Laundering Act, 2002" should be brought to the notice of all employees by Vijay Ginodiya through the Company's intranet.
- All sub-brokers/ channel partners shall be intimated and update on the applicable provisions of The Prevention of Money Laundering Act, 2002 and the reporting mechanism by way of a circular.
- Staff training and implementing specific procedures for customer identification and retaining internal records of transactions.
- The Policy will be reviewed once a year.

15. Designated Director/ Principal Officer

In case any further information /clarification is required in this regard, the 'Principal Officer/Designated Director' may be contacted.

Policy draft by **MANGESH KHARDEKAR**

Policy review by **VIJAY GINODIYA**

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