Circular Reference: SEBI has vide its circular dated January 18, 2006 has made it mandatory for every intermediary including stock brokers and asset management service providers to have written policy on Prevention of Money Laundering by February 16, 2006 and also to appoint an office for reporting suspicious transactions to authorities.

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INDEX

1. **Background**

2. **Statement of policy**

3. **Customer Due Diligence**
   - **3.1 New client registrations**
   - **3.2 Classification of clients**
     - **3.2.1 Low risk client**
     - **3.2.2 Medium risk client**
     - **3.2.3 High risk client**
       - o **Special category client**
   - **3.3 Identifying beneficial owners**
   - **3.4 Continuous due diligence**

4. Record Keeping/Retention of Records

5. Monitoring of Transactions/Suspicious transaction Monitoring and reporting

6. Designated Officer

7. Hiring and training policy

8. Penalties

1. Background:

Money laundering is defined as disguising the source or ownership of illegally obtained/ gained funds/money to make them appear arising out of legitimate source or hiding money to avoid paying taxes and thereby converting black money into white money or using legally obtained money in pursuit of unlawful activities.

Money laundering takes place in three phases. The first phase is placement when bulk cash is deposited into banking system or pumped into any legitimate system using funds from illegal activities. The Second phase is layering where multiple transactions are used to separate the proceeds from there illegal source. The third phase is integration where these illegal funds are mixed with apparently legitimate business earnings.

2. Statement of Policy

Most developed countries (including Australia, Hong Kong, Singapore, Taiwan and the UK) have laws making it a criminal offence for a company or an individual to assist in the laundering of the proceeds of serious crime.

The Firm conducts its business in conformity with all laws and regulations of the jurisdictions in which it transacts business. In order to ensure that the Firm meets its legal obligations, employees of **Asian Market Securities Pvt. Ltd.** (hereinafter called as 'AMSPL') must be mindful of the problem of money laundering and constantly vigilant for signs of such activity. Every effort must be made to "know" and verify the identity of the Firm's customers, to be aware at all times of what might constitute a suspicious transaction or suspicious counterparty behavior, to adhere to appropriate account opening and record-keeping procedures, and to observe **AMSPL**'s procedure for reporting suspicious circumstances to Management, Compliance and the relevant authorities.

Recognizing and combating money laundering: "Know Your Customer" The types of transactions which may be used by a money launderer are almost unlimited, making it difficult to define a suspicious transaction. It is, however, reasonable to question a transaction which may be inconsistent with an investor's known, legitimate business or personal activities or with the normal business for that type of investor. Hence, the first key to recognition is to "know your customer".

Employees should be sensitive to potential warning signs of money laundering.

When establishing a relationship, maintaining a relationship or providing services, especially when dealing with a client

infrequently, all reasonable steps must be taken to determine, to verify where necessary, and to remain apprised of the identity, financial position and business objectives of the client. Client identification must be carried out before any dealing takes place and the Firm's account opening form must be completed and processed for every new account.

3 Customer Due Diligence Measures:

3.1 New Client Registration: Identify Customer Identity

- No account should be opened in fictitious name/benami name
- Customer should be physically present at the time of account opening
- Verify proof of Identity and address from original
- Bank verification
- Interview client
- Employer/Establishment certificate
- No account should be opened for client for whom no due diligence can be done by at least one of the employee
- Don't open account to clients who does not cooperate to provide basic details
- Don't open account for client who has even been convicted of offence involving moral turpitude or any criminal offence or has any criminal background
- It is statutorily required to provide details of clients to authorities, who fails to provide satisfactory evidence of identity

3.2 **Classification of Clients-**

Clients are categorized on various grounds like client's location (registered office address, correspondence addresses and other address, if any applicable), nature of business activity, trading turnover etc and manner of making payment for transactions undertaken.

Broadly speaking clients can be specified in following three categories.

3.2.1 Low risk clients

Low risk client includes clients who satisfy following criteria:

One who provides all documents at the time of account opening without any delay?

3.2.1.1 Resident of India

3.2.1.2 Proofs verified with originals

3.2.1.3 Provides income proof

3.2.1.4 Providing two or more references

3.2.1.5 No delegation of authority for operation of account

3.2.1.6 Always provide securities and funds in time

3.2.1.7 Places order within reasonable period of time

3.2.2 Medium risk client: Any client who cannot be comfortably placed in neither in Low risk nor in high risk category.

3.2.3 **High risk client:** includes all clients mentioned under Special category of clients and any client against whom any order is passed by regulatory authorities or any investigation is launched which is pending Any client against whom any regulatory order is passed for accessing market then such client will automatically be black listed and no further trading should be done for those accounts.

- **Clients of special category (CSC): Such clients include the following-**
  a. Non resident clients
  b. High net worth clients,
  c. Trust, Charities, NGOs and organizations receiving donations
  d. Companies having close family shareholdings or beneficial ownership
  e. Politically exposed persons (PEP) of foreign origin
  f. Current / Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, Close advisors and companies in which such individuals have interest or significant influence)

Further client once categorized as low risk client can be later categorized as high risk or vice versa depending on the nature of transactions and client behavior and client owner periodical report of his/her client.

3.3 Obtain information to Identify persons who are beneficial owner of securities

- ♦ Spouse holding shares and registered holder has no justifiable source of income
- ♦ Opening of account in name of Minor, where minor does not have any income and routing major transactions through minor account instead of guardian account.
- ♦ Account specifying Power of attorney holders
- ♦ For persons acting on behalf of client, proper verification of person's authority to act on behalf of client should be done.

3.4 Continuous Due Diligence:

3.4.1 It is duty of every client manager/client owner to satisfy himself about the financial soundness and investment objectives of client

3.4.2 Every client owner/ sales person should carry on independent grading of his/ her client on periodical basis (say 18 or 12 months)and intimate Compliance department of his finding highlighting adverse change in grading

3.4.3 Portfolio/Investment size/order sizes are commensurate with annual income disclosed by client

3.4.4 Verify sources of fund disclosed by clients

3.4.5 Maintain continuous familiarity and follow up with clients where any inconsistency in the information is provided.

3.4.6 Back office members should immediately inform Operations head/ Accounts head who in turn will inform Principal Officer about any transaction which is inconsistent with client regular trading activity or if funds and securities are coming from account other then account specified by client or if they receive request to transfer fund or security to account other then designated account.

3.4.7 Stop continue to do business with client doing suspicious transaction and inform compliance department for further reporting of suspicious activity to authorities

3.4.8 Never make client aware of your suspicion

3.4.9 Every Sales person will fill and provide field report w.r.t. every client introduced by him:

3.4.9.1 Highlighting results of his visit to client residence/office

3.4.9.2 Whether client lives in rented accommodation?

3.4.9.3 Period for which he/she has been staying at current place Client reference response

3.4.9.4 Whether client is in all cooperative?

3.4.9.5 Whether client is easily accessible?

3.4.9.6 Whether proof of identity and residence easily provided?

3.4.9.7 Whether client provides bank and demat proof easily?

3.4.9.8 Whether client is opening account for the benefit of any other person?

3.4.9.9 Whether client name appear in www.watchoutinvestors.com (attach a copy of list verified)?

3.4.9.10 Anything else which aroused suspicion of Sales manager or is not normal about client?

4.0 Record Keeping/ Retention of records

All documents should be preserved for **5 years** as per SEBI Act this includes books of accounts, agreements, duplicate copies of contract notes, recorded messages, order books

Provided for active account documents like KYC, agreement, passports, PAN card copy, driving license, bank letter etc should be preserved permanently
Further provided that if any proceeding is pending against **AMSPL** conducted by any authorities these documents should be preserved till the disposition of proceeding i.e. until it is confirmed that case is closed.
Provided further that in case account is closed if it was inactive for X no. of years then documents should be maintained for **5 years** from date of closure
For accounts which are freezed on our own account or on receiving order from authorities all document should be preserved until final disposition of case to the satisfaction of authorities.

4.1 Maintain records e.g. order slip or any piece of document which in future can help in reconstruction of individual transaction.

4.2 To provide audit trails to authorities for potential money laundering activities following information's should be retained for reasonable period of time:-

i. Beneficial owner of account
ii. Volume of fund flowing through account
iii. For selected transactions
    i. The origin of funds;
    ii. Form in which fund was offered
    iii. Form in which fund was withdrawn e.g. cash, cheques etc.
    iv. Identity of person taking transaction
    v. Destination of fund and securities
    vi. Form of instruction and authority

5.0 Monitoring of Transactions and Reporting

5.1 Any transaction of retail clients of value exceeding 10 lacs should be reported to compliance department if its an irregular transaction, transaction is irregular (I)if the size of order is not commensurate with client income level disclosed or if its more then his usual order size. (ii) If the order is placed by dormant client i.e. order placed by client after a period of 1 year from his/her last transaction.

5.2 Any transaction which does not make economic sense or is complex or unusually large should be immediately brought to the notice of respective head of department and Compliance department.

5.3 All documents, slips, recordings etc. related to any suspicious transactions should be preserved as per record keeping policy.

5.4 Compliance Department will do random checking from transaction value of which exceeds 10 lacs on monthly basis and report its finding to management and if necessary to relevant authorities.

5.5 Any transaction/ order which arises the suspicion of any employee should be diligently and immediately informed to compliance department.

5.6 List of black listed client and suspicious clients will be maintained for reference of employees. Whereas no trading should be done for clients mentioned in black list for trading of clients in suspicious list one has to be vigilant.

All the persons who are debarred / warned by SEBI/Exchanges to access capital market will be black list clients or any client against whom firm has reported to authorities for alleged money laundering activities and matter is still pending before or order is given against client.

An illustrative list is provided below for reference of employees as what could be a suspicious transaction.

a) Clients whose identity verification seems difficult or clients appears not to cooperate
b) Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity;
c) Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
d) Substantial increases in business without apparent cause;
e) Unusually large cash deposits made by an individual or business;
f) Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
g) Unusual transactions by CSCs and businesses undertaken by shell corporations, offshore banks /financial services, businesses reported to be in the nature of export-import of small items.
h) Requests to transfer money or securities to third parties with or without any known connection to our customers.
i) The transaction is not in keeping with the counterparty's normal activity.
j) The transaction is unusual, e.g., with respect to normal market size and frequency.
k) There is an unusual and unnecessary involvement of an intermediary.
l) The transaction is not settled in the normal manner, e.g., an offer to settle in cash or settlement by registration or delivery of securities to a third party.
m) Settlement is made by way of bearer securities from outside a recognised clearing system.
n) Cash movements in and out of an account within a short period of time.
    - Cash transaction of value of Rs. 10 lacs
    - Cash transaction aggregating to 10lacs within a calendar month's time.
    - Any other suspicious transaction whether made in cash or not.

5.7 Any suspicion transaction should be immediately notified to the Money Laundering Control Officer / Principal Officer or any other designated officer within the intermediary. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature /reason of suspicion. However, it should be ensured that there is continuity in dealing with the client as normal until told otherwise and the client should not be told of the report/suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken.

6.0 Principal Officer:

Principal Officer shall be responsible for reporting suspicious transactions to the authorities and in identification assessment of potentially suspicious transactions.
In the absence of Principal Officer Head operations and Accounts shall be severally responsible for reporting and assessment in consultation with CEO of the Company.

7.0 Training and Hiring policy:

Every employee must undergo anti money laundering training within a week of joining firm. It is duty of every Departmental head to ensure that every new recruit and employee in his/her department have undergone aforesaid training.
Further no candidate should be selected who has ever been convicted of offence under Money Laundering Act or any other civil or criminal Act.

8.0 Penalties:

Money laundering and the facilitation of money laundering (including the failure to report suspicious activities) are criminal offences under many laws under which **AMSPL** and its employees have dealings. They may be punishable by lengthy imprisonment for individuals or a fine, or both. If an employee has any suspicions and report the suspicions about money laundering to the Compliance the employee will have fulfilled his/her obligations under the law. Rigorous adherence to the Firm’s policies and procedures will help to protect the employee.

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