

**KANJALOCHANA FINSERVE PVT LTD**  
**(Members - NSE and BSE)**

**POLICY FOR PREVENTION OF ANTI MONEY**  
**LAUNDERING ACT, 2002**

**1. Preamble**

In terms of the guidelines issued by the Securities Exchange Board of India (SEBI) for both trading and demat accounts on Know Your Customer(KYC) standards and Anti Money Laundering(AML) measures, intermediaries are required to put in place a comprehensive policy frame work covering KYC Standards and AML Measures.

This policy document is prepared in line with the SEBI guidelines and in line with **Kanjalochna Finserve Pvt Ltd's (hereinafter referred as "KFPL")** approach to customer identification procedures, customer profiling based on the risk perception and monitoring of transactions on an ongoing basis. The objective of this policy document is to prevent KFPL from being used, intentionally or unintentionally, by criminal elements for money laundering activities and for identifying, monitoring and reporting suspected money laundering or terrorist financing transactions to the law enforcement authorities.

**2. Definition of Money Laundering**

Section 3 of the Prevention of Money Laundering [PML] Act 2002 has defined the "offence of money laundering" as under:

"Whoever directly or indirectly attempts to indulge or knowingly assists or knowingly is party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money laundering".

Money launders may use the broking system for cleansing 'money' earned through criminal activities with the objective of hiding/disguising its source. The process of money laundering involves creating a web of financial / trading transactions so as to hide the origin and true nature of these funds. Money launders also disguise the true source of funds by investing the funds earned out of terrorist / criminal activities through third party accounts.

**3. Obligations under Prevention of Money Laundering [PML] act 2002**

Section 12 of PML Act 2002 places certain obligations on every banking company, financial institution and intermediary which include (i) maintaining a record of prescribed transactions preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of the PML Rules, for a period of

eight years from the date of the transaction between the client and the intermediary. (ii) Furnishing information of prescribed transactions to the specified authority.

#### **4. Policy Objectives.**

1. To prevent criminal elements from using KFPL Trading system for money laundering activities.
2. To enable KFPL to know / understand its customers and their financial dealings better, which in turn would help KFPL to manage risks prudently.
3. To put in place appropriate controls for detection and reporting of suspicious activities in accordance with applicable laws/laid down procedures.
4. To comply with applicable laws and regulatory guidelines related to anti – money laundering.
5. To take necessary steps to ensure that the concerned staff are adequately trained in KYC/AML procedures.

#### **5. 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.

#### **6. Appoint a Designated Director**

As defined in Rule 2 (ba) of the PML Rules, the company shall appoint a Designated Director who should be responsible for ensuring the compliance with the PMLA requirements;

“Designated Director 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.

#### **7. Client Due Diligence.**

This policy is applicable to KFPL and is to be read in conjunction with related operational guidelines issued from time to time.

#### **8. Client Identification Process.**

The following precautions will have to be taken by KFPL in order to ascertain that accounts are not misused by the clients or by any third parties for money laundering activities:

1. KFPL will obtain sufficient information about the client and identify actual beneficiary of transactions or on whose behalf transactions are conducted.
2. Verify client’s identity.
3. KFPL will register clients as per SEBI/BSE/NSE guidelines and it will develop appropriate reporting system to monitor client’s trades.

4. KFPL shall annually update all documents, data or information of all clients and beneficial owners collected under CDD (Client Due Diligence) process provided the client provides the information.
5. KFPL shall ensure that maker -checker facility is in place for all its operation as a risk management measure as well as to increase efficiency. In order to ensure the Identity and Genuineness of the Client, the client shall sign in the Account opening forms and also in copies of supporting documents in the presence of person who conducts in person verification (IPV) or in the presence of the authorized official of KFPL.
6. In case a new client is Politically Exposed Person (PEP) or a new client is a relative of PEP then such client activation must be done only after getting prior approval of Managing Director. Managing Director approval will also be taken when an existing client become PEP at later stage.

*SEBI vide its circular CIR/MIRD/2/2013 dated January 24,2013has issued guidelines on identification of beneficial ownership .SEBI master circular no. CIR/ISD/AML/3/2010 dated 31 December 2010 has mended all registered intermediaries to obtained ,as a part of their client due diligence policy sufficient information from their clients in order to identify and verify the identity of the persons whom beneficially own or control the securities account .The beneficial owner has been defined in the circular as the natural person or persons who ultimately own, control or influence a client and/or persons on whose behalf a transaction is being conducted, and includes a person who exercises ultimate effective control over a legal person or arrangement.*

*Pursuant to the above provisions contained in SEBI circular dated Jan 24,2013, KFPL shall at the time of registering the client, other than an individual or trust, i.e company partnership or unregistered associates, body individual shall identify the beneficial owners of the clients and reasonable measures to verify the identity of such person through the following information.*

*a. The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership or who ultimately has a controlling ownership interest. 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.*

*b. In cases where there exists doubt under clause (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means. Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.*

*c. Where no natural person is identified under clauses (a) or (b) above, the identity of the relevant natural person who holds the position of senior managing official.*

*In case the client is a trust the KFPL shall identify the beneficial owner of the client and take reasonable measures to verify the identity of the settlers of the trust, trustee the protector of the beneficiaries with 15 % or more interest in the trust and any other person exercising ultimate control over the trust through a chain of control or ownership.*

**Exemption in case of listed companies:**

*As per the provisions contained in above SEBI Circular, where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a majority-owned subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies.*

*In case of foreign investor i.e. FII subaccount and qualified foreign investor KFPL should be guided by the clarification issued by SEBI by circular CIR/MIRSD/11/2012 dated 5 Sep 2012 for the purpose of identification of beneficiary ownership of the client.*

*Pursuant to provisions contained in SEBI circular no. CIR/MIRSD/1/2014 dated March 12, 2014 KFPL shall carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to our clients, countries or geographical areas, nature and volume of transactions, payment methods used by clients, etc. The risk assessment shall also take into account any country Specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individuals and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions.*

*The risk assessment carried out, KFPL shall consider all the relevant risk factors before determining the level of overall risk and the appropriate level and type of mitigation to be applied. The assessment shall be documented, updated regularly and made available to competent authorities and self-regulating bodies, as and when required.*

**Reliance on third party for carrying out Client Due Diligence (CDD)**

- i. KFPL may rely on a third party for the purpose of (a) identification and verification of the identity of a client and (b) determination of whether the client is acting on behalf of a beneficial owner, identification of the beneficial owner and verification of the identity of the beneficial owner. Such third party shall be regulated, supervised or monitored for, and have measures in place for compliance with CDD and record-keeping requirements in line with the obligations under the PML Act.
- ii. Such reliance shall be subject to the conditions that are specified in Rule 9 (2) of the PML Rules and shall be in accordance with the regulations and circulars/ guidelines issued by SEBI from time to time. Further, it is clarified that sub brokers of KFPL, along with KFPL shall be ultimately responsible for CDD and Undertaking enhanced due diligence measures, as applicable.

**9. Client Acceptance Procedures.**

Considering the potential threat of usage of the financial services by a money launderer, it is essential to make reasonable efforts to determine the true identity of clients. KFPL has to put in place effective procedures to obtain requisite details for proper identification of new customers.

1. ALL KYC Documentations and Procedures shall be followed at the time of Account opening and no account shall be opened where KFPL is unable to apply appropriate CDD measures/KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the

- client, or the information provided to the intermediary is suspected to be non-genuine or there is perceived non-cooperation of the client in providing full and complete information.
2. The submission of all documents required under this policy shall be pre-requisite for account opening for all clients. Incomplete application including incomplete documentation will be rejected. KFPL will follow the industry standard for implementing client identification procedure.
  3. The authorized official of KFPL or Sub-broker shall personally verify the Photograph of the client affixed on the Account Opening Form [AOF] and the proof of identity documents with the person concerned. The authorized official who has done in person verification and verified the documents with original should also sign on the proof. Each original document shall be seen prior to acceptance of copy. Stamp of “documents verified with originals” must be affixed along with the signature of the authorized person
  4. In case of any discrepancy or non-provision of information by the client, KFPL shall seek necessary clarification from the applicant and activate the account only when the discrepancy is resolved or the deficiency is fulfilled. For e.g. Cases where names mentioned on the AOF (Account Opening Form) and that on the PAN Card do not match etc.
  5. Verify the customer’s identity using reliable, independent source documents, data or information by following procedure:
    - (A) The PAN Card details should be verified with the name(s) appearing on the website of the Income Tax Department. In case the name(s) do not match or the PAN Card details are not present in the PAN Card database, KFPL should seek necessary clarification from the applicant(s) and activate the account only when the discrepancy is resolved.
    - (B) KFPL should refer the list of the person who have been debarred by SEBI, NSE & BSE on regular basis and ensure that no client’s application is accepted if the name of such client falls in the list of debarred person maintained by KFPL.
    - (C) Precaution shall be taken as far as possible before opening an account so as to ensure that the 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 provided appropriate information is available to identify a person based on PAN number/address/any other appropriate information is available to KFPL from websites generally known for such purpose/information provided by SEBI/BSE/NSE.
    - (D) As per guidance provided by SEBI/BSE/NSE, KFPL shall put in place necessary procedures to determine whether their existing/potential client is a politically exposed person (PEP) of foreign origin. Such procedures would include seeking additional information from clients, accessing publicly available information etc. as per guidance provided by SEBI/BSE/NSE.
  6. Precaution to be taken that no account is opened in a fictitious / benami name or on an anonymous basis.
  7. KFPL shall categorize its clients into low, medium and high risk as per the Client categorization procedure adopted by KFPL from time to time. Clients shall be categorized at the time of account opening with KFPL based on recommendation made by the Branch Manager/ Relationship Manager/ Sub-broker/ Authorized Person who introduces the client, information provided by the Client in KYC, information available in public domain, etc. Clients of special category as stated in the SEBI circular will be closely monitored unless the client is found to be of low/ medium risk depending upon information about the client collected through KYC, etc.

8. The applicant shall be required to disclose his / her financial status & occupation details as required by PMLA. In case of Non Individual clients like, corporate, Trust, Partnership firms, etc. last 2 years' balance sheet may be obtained.

## 10. Categorization of Client

KFPL shall accept the clients based on the risk they are likely to pose. For this purpose, KFPL shall categorize the clients under low risk, medium risk and high risk category based on appropriate Customer Due Diligence process.

### Low Risk:

Low risk clients are those who are likely pose low or nil risk as per the PMLA policy. Individuals and entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile may be categorized as low risk. They can be following:

1. Salaried Individuals.
2. Corporate which are providing financial details of last two years and identity of the beneficial owner is disclosed
3. Government employees and government owned companies.
4. HNI's who have respectable social and financial payments.
5. Businessman whose identity and source of wealth is easily identified and who is complying with maximum KYC disclosures.
6. Clients who does not fall in the above mentioned points and who provide maximum information as per KYC and exhibits transparency
7. Clients which have been introduced by brokers/branch managers and they have known them personally and have faith in their genuineness.

### Medium Risk:

Customers that are likely to pose medium risk to KFPL may be categorized as medium risk such as:

1. Persons in business/industry or trading activity where the area of his residence or place of business has a scope or history of unlawful trading/business activity.
2. Where the client profile of the person/s opening the account, according to the perception of the branch is uncertain and/or doubtful/dubious.
3. Clients delegating authority of operation of their trading & beneficial accounts to any of their immediate family members.

### High Risk:

1. Entities into foreign exchange business.
2. High Net worth individuals whose identity and source of wealth is difficult to identify.
3. Trusts, charities, NGOs and organizations receiving donations,

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(Formerly known as Kanjaloachana Consultancy Pvt. Ltd.)

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4. Politically Exposed Persons (PEPs)
5. Those with dubious reputation as per public information available, etc.
6. Clients in high risk countries as announced by appropriate authority from time to time.
7. NRI clients.

#### **11. Clients of special category (CSC):**

- i. Non-resident clients
- ii. High net-worth clients,
- iii. Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations.
- iv. Companies having close family shareholdings or beneficial ownership.
- v. Politically Exposed Persons (PEP) such as individuals who are or have been entrusted with prominent public functions in a foreign country, e.g., Heads of States or of Governments, senior politicians, senior government/judicial/military officers, senior executives of state-owned corporations, important political party officials, etc.
- vi. Companies offering foreign exchange offerings.
- vii. Clients in high risk countries or countries active in narcotics production etc.
- viii. Non face to face clients.
- ix. Clients with dubious reputation as per public information available etc.

Higher degree of client due diligence will be undertaken for Clients of Special Category (CSC), on case to case basis based on facts and circumstances of the transactions done by CSC and regular update of KYC profile of such clients as and when required.

#### **12. Transaction monitoring procedure:**

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
- Synchronized trades
- 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.

### **13. Maintaining & Retaining Records:**

All the necessary records pertaining to the broking 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 be required by the competent Investigation Authority.

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 eight years from the date of the transaction between the client and the intermediary.



#### **14. 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.

#### **15. 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/>

#### **16. 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.

## 17. 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.

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.

## 18. Approval Authority:

This policy shall be approved by our Board of Directors.

## 19. 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 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.

## 20. 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, 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 MHA so that they may take effective action like informing the State Police and /or the Central Agencies 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.

## **21. 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.

## **22. 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.

## **23. 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.

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