

Ref: 07-08/ISS/407/PI
May 3, 2007

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All Registered Intermediaries of ISS
President / Executive Director of Participating Exchanges, Co-ordination Officers at
Participating Exchanges / Regional Administrative Offices

Dear Sir,

Sub: Revision in the format of Annexure 2 & Annexure 3 referred in our earlier circular reference no. 07-08/ISS/382/VV dated April 27, 2007 regarding Written Procedure to be adopted for implementation of the Anti-Money Laundering Act, 2002

This is with reference to our above referred circular dated April 27, 2007, wherein we had directed the registered intermediaries to adopt written procedure for implementation of provisions of the Prevention of Money Laundering Act, 2002 (PMLA). In the circular referred above we had attached Annexure – 2 (for intimation to FIU about the appointment of Principal Officer) and Annexure – 3 (for intimating ISS about the appointment of Principal Officer). We have revised the format of the above two annexures and the same are attached herewith.

It is hereby clarified that Annexure – 2 has to be sent to FIU, New Delhi and not to ISS. Further, Annexure – 1 of the aforesaid circular, being the Anti Money Laundering Policy for sub-brokers has to be printed on the letterhead of the sub-broker. All the pages must be signed and stamped by the sub-broker.

In case of any clarification you can contact the undersigned at 022-67941116 or e-mail at parthasarathy@iseindia.com.

Thanking you,

Yours faithfully,
For **ISE SECURITIES & SERVICES LTD.**,

PARTHASARATHY IYENGAR
Secretarial Officer

Encl: a/a

**(DRAFT) POLICY FRAMEWORK AND PROCEDURE MANUAL AS REQUIRED
UNDER THE PREVENTION OF MONEY LAUNDERING ACT, 2002**

1. INTRODUCTION

- 1.1. The Prevention of Money Laundering Act, 2002 (PMLA) has come into effect from July 1, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on July 1, 2005 by the Department of Revenue, Ministry of Finance, Government of India.
- 1.2. As per the provisions of the PMLA, every banking company, financial institution (which includes chit fund company, co-operative bank, housing finance institution and non-banking financial company) and intermediary (which includes a stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, register to an issue, merchant banker, underwriter, portfolio manager, investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain record of all the transactions. The nature and value of which has been prescribed in the Rules under the PMLA. Such transactions shall include:
- (i) all cash transactions of the value of more than Rs.10 lakh or its equivalent in foreign currency.
 - (ii) all series of cash transactions integrally connected to each other which have been valued below Rs.10 lakh or its equivalent in foreign currency, where such series of transactions take place within one calendar month.
 - (iii) all suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into or from any non monetary account such as demat account, security account maintained by the registered intermediary.

It has been clarified that for the purpose of suspicious transactions reporting, apart from 'transactions integrally connected', 'transactions remotely connected or related' should also be considered.

2. GUIDELINES ON ANTI-MONEY LAUNDERING STANDARDS

- 2.1. Every registered intermediary is required to adopt written procedures to implement the Anti-Money Laundering Procedures as envisaged under PMLA. Such procedures should include, inter-alia, the following which are related to overall customer due diligence process:
- (i) policy for acceptance and registration of client.
 - (ii) procedure for identifying the bonafides of a client.
 - (iii) transaction monitoring and reporting, especially those which are of a suspicious nature.

3. POLICY FRAMEWORK & PROCEDURAL GUIDELINES

3.1. General

- (i) According to the SEBI's Anti-Money Laundering Guidelines, it would also cover _____ (Name of the Sub-broker), hereinafter referred to as "The Sub-broker" and the end-client operations through any Stock Broker, in our case ISE Securities & Services Ltd. (hereinafter referred to as "ISS").
- (ii) The clients whose activities need to be monitored under PMLA are the clients of the sub-brokers for their trading on the Exchange through ISS.
- (iii) Accordingly, the policy framework and the procedural guidelines have been stated separately for the sub-broker and the clients of the sub-broker.
- (iv) A registered intermediary should ensure compliance with the record keeping requirements stipulated in the SEBI Act, 1992 and the Rules & Regulations made thereunder, PMLA, other relevant Acts, Rules & Regulations made thereunder and the Bye-laws, Circulars of the relevant Exchange(s).
- (v) The Sub-broker and his / their clients are required to maintain such records as are necessary to permit reconstruction of individual transactions, including transaction amounts, so as to provide evidence in any criminal investigation.

3.2. Appointment of Principal Officer:

Pursuant to the applicable provisions of the Rules, Regulations, Guidelines of The Prevention of Money Laundering Act, 2002 (PMLA 2002), Shri _____, _____ (Designation) be and is hereby also appointed as the Principal Officer of the Company and the same has been intimated to the Financial Intelligence Unit of India (FIU-IND) and any other statutory authority as and when required."

3.3. Customer Due Diligence

- (i) Irrespective of the constitution of the client, the sole proprietors, partners or the directors and shareholders, as the case may be, will be required to submit proof of identity which could be copies of their PAN cards, passports, driving licenses. Further, he / they will also be required to submit proof of address document(s), such as ration card(s), passport(s), driving license(s), latest electricity bill(s) (not older than two months), latest residential telephone bill(s) of MTNL / BSNL (not older than two months) or bank pass book(s). In addition, reference letter(s) would be necessary from their bankers, indicating the bank account details.
- (ii) Two passport sized photographs are also required to be submitted, which would be verified with the proof of identity documents submitted by the sole proprietor, partners or directors.

- (iii) Verification of the proof of identity and proof of address is carried out by the staff of the the Sub-broker, which is counter-checked by the Compliance Officer of the Sub-broker.
- (iv) Only after the Screening Committee of ISE has satisfied itself about the bonafides and suitability of the applicant, his / their application for registration as a sub-broker of ISS would be forwarded to SEBI for approval. Details of admission of the broker by the Screening Committee of ISE would be put up to the Board of Directors of ISE for ratification.
- (v) The client is required to show his PAN card in original to the staff of the Sub-broker as proof of identity. A photocopy of the same should be retained by the Sub-broker for its record.
- (vi) As far as proof of address is concerned, the original ration card, passport, voter id card, driving license, bank passbook, original electricity bill or residence telephone bill (not older than two months), together with photocopies of the same, or notarized leave & license agreement / agreement of sale of the residential unit of the client have to be furnished at the sub-broker office for verification. The original is returned to the client, while the copy is kept as a record by the Sub-broker.
- (vii) In addition, a passport sized photograph signed by the client across its face is required, as well as bank account details.
- (viii) Information pertaining to the investment and trading experience / preferences of the clients should be provided by all the clients in the Client Registration Document to be submitted to ISS.
- (ix) In case of a minor client: Birth certificate of the minor, proof of identity and proof of address documents of the guardian, PAN card and passport sized photographs of the client and the guardian are also required.
- (x) In case of Hindu Undivided Family (HUF): The documents required for an individual client will, in the case of an HUF, be required to be submitted by each of the family members of the HUF. Full particulars of the family members, their names, dates of birth and relationship with the karta are necessary. The karta should sign the account opening form, affixing also the stamp of the HUF. The PAN card of the HUF is also required.
- (xi) In case of a corporate entity: A certified true copy of the board resolution authorizing the specific individual(s) to operate the trading account as authorized signatory/ies and the manner of operating the account, as well as the designation(s) and specimen signature(s) of the authorized signatory/ies certified by the Managing Director or Company Secretary of the corporate entity, would be required. In addition, a certified true copy of the memorandum & articles of association of the company and passport sized photograph(s) of each of the authorized signatory/ies signed across its face would also be necessary. In case power of attorney has been granted to any specific individual, an attested true copy of the same would be required to be submitted to ISS. In addition, PAN No. of the corporate entity is required. In addition to this, the Income Tax Return filed with Income Tax should be submitted by the Sub-broker and the Client on a yearly basis, within 1 month if filing the same with Income Tax.

3.4. Policy for acceptance of a Trading Client

- (i) In the case of a client wishing to open his trading account through a sub-broker of ISS, introduction by the sub-broker is mandatory and the details of the introducer should be completely filled in the Client Registration Document.
- (ii) Where it is found that the information submitted by the sub-broker or the client is false, ISS would forthwith stop the processing of the application for registration as a sub-broker or client of ISS. In case the applicant has already been registered as a sub-broker by SEBI, then the regulator would be informed immediately about the same, with a request to cancel the registration.

3.5. **Rule 9 : Verification of the records of the identity of clients :**

- 1) **Where the client is an individual :**
 - i. One certified copy of an officially valid document containing details of his permanent address or addresses, current address or addresses;
 - ii. One copy of his recent photograph;
 - iii. Documents in respect of the nature of business and financial status
- 2) **Where the client is a company :**
 - i. Certificate of incorporation;
 - ii. Memorandum and Articles of Association;
 - iii. A resolution from the Board of Directors and power of attorney granted to its managers, officers or employees to transact on its behalf; and
 - iv. an officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.
- 3) **Where the client is a partnership firm :**
 - i. Registration Certificate;
 - ii. Partnership Deed;
 - iii. an officially valid document in respect of the person holding an attorney to transact on its behalf.
- 4) **Where the client is a trust :**
 - i. Registration Certificate;
 - ii. Trust Deed;
 - iii. an officially valid document in respect of the person holding an attorney to transact on its behalf.
- 5) **Where the client is an unincorporated association or a body of individuals :**
 - i. Resolution of the managing body of such association or body of individuals;
 - ii. Power of Attorney granted to him to transact on its behalf;
 - iii. An officially valid document in respect of the person holding an attorney to transact on its behalf; and
 - iv. such information as may be required to collectively establish the legal existence of such an association or body of individuals.

3.6. Record keeping:

- (i) All documents relating to registration of clients shall be preserved as long as he continues to be a sub-broker / client.
- (ii) All records of transactions effected through ISS, the trading member, will be maintained for atleast ten years.
- (iii) Customer identification documents (copies of proof of identity, proof of address etc.) shall be preserved as long as he continues to be a client of ISS.
- (iv) In a situation where the information is required for an ongoing investigation or a transaction or set of transactions have been flagged for suspicious transaction reporting, the information shall be retained until the concerned investigating authority confirms that the case is closed.

3.7. Limit of cash transaction:

- (i) The sub-brokers of ISS, as well as the trading clients, would be required to ensure that no cash transaction above Rs.20,000/- takes place.

3.8. Monitoring of securities transactions:

- (i) The sub-broker has to monitor the activities of their clients on a continuous basis, so that deviant transactions / activities can be flagged off for investigation.
- (ii) Sub-brokers should pay special attention to complex or unusual transactions or trading patterns, which appear to have no economic purpose.

3.9. Monitoring of trading transactions:

- (i) Trading involving a quantity of more than 10,000 shares would be taken up for further scrutiny and where necessary, for detailed investigation by the Sub-broker.
- (ii) In the case of penny stocks (small cap companies or a scrip having a market price of less than Rs.10/- per share), trading for quantities above 2500 shares would be taken up for further scrutiny by the Sub-broker.
- (iii) Details of debit or credit transactions in any account collectively during the fortnight in an account, exceeding 10 times the average size of the transaction in ISS subject to a minimum of 5000 shares would be flagged for further investigation.
- (iv) The top 15 debit transactions from an account having the maximum cumulative debit value for the day and the top 15 credit transactions into an account having maximum cumulative credits for the day would be flagged and taken up for further investigation.
- (v) The nature, amount of the transactions, currency in which it was denominated, the date on which the transaction was conducted and the parties to the transaction should be intimated by the Sub-broker to ISS immediately.
- (vi) The sub-brokers / authorised persons should exercise utmost vigil over the transactions of the clients and inform ISS immediately when there is any doubt / suspicion about the activities of their clients.

3.10. Designation of an officer for reporting suspicious transactions:

The information relating to suspicious transactions or large transactions warranting further investigation would be forwarded to the Chief Executive Officer of ISS by the Sub-broker of ISS on a daily basis. The Sub-broker need to intimate ISS regarding the appointment of the principal officer under the PMLA.

3.11. Hiring of Employees and their Training:

- (i) The staff required for the Sub-broker would be appointed by the Sub-broker after proper screening. The sub-broker would be put in place high standards for hiring employees.
- (ii) Key positions in the Sub-broker's office would be identified and it would be ensured that the employees taking up these positions are suitable and competent to perform their duties.
- (iii) The Sub-broker would provide training on Prevention of Anti-money Laundering Guidelines to all new recruits.

3.12. Steps to be taken by the Sub-Broker:

- i. Communication of policies to all employees relating to prevention of Money Laundering;
- ii. Adequate screening procedures in place to ensure high standards when hiring employees;
- iii. Ensure that the content of these guidelines are understood by all staff members;
- iv. Customer acceptance policy and Customer Due Diligence measures;
- v. Maintenance of records;
- vi. Internal Audit of policies, procedures and controls;
- vii. No account to be opened in a fictitious / benami name or on an anonymous basis;
- viii. Risk sensitive basis i.e. enhanced Due Diligence process for higher risk categories of customers and vice versa;
- ix. The 'Know Your Client' (KYC) policy should clearly spell out the client identification procedure;
- x. Each original document should be seen prior to acceptance of a copy;
- xi. Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority;
- xii. Audit trail in case of suspicious transaction;
- xiii. Identify beneficial ownership and control;
- xiv. Origin and destination of funds in case of suspicious transaction;
- xv. Unusual transactions by Clients of Special Category (CSC) should be verified;
- xvi. Regularly review the policies and procedures, the person doing such review should be different from the one who has framed the policies and procedures;
- xvii. Maintain records of transactions at least for the minimum period of 10 years from the date of cessation of the transactions with their clients;
- xviii. Should monitor complex and unusually large transactions;
- xix. Implement a Client Identification Programme



(On the Letter head of the Sub-broker)

Ref:
Date:

Director, FIU-IND
Financial Intelligence Unit-India
6th Floor, Hotel Samrat
Chanakyapuri
New Delhi-110021.

Dear Sir,

Sub: Appointment of Principal Officer for ISE Securities & Services Ltd. as required under The Prevention of Money Laundering Act, 2002

Ref: SEBI circular ref. no. ISD/CIR/RR/AML/2/06 dated March 20, 2006

As required under The Prevention of Money Laundering Act, 2002 and also as required by SEBI through its circular ref. no. ISD/CIR/RR/AML/2/06 dated March 20, 2006, we wish to inform you that we have appointed Mr. / Ms. _____, _____ (Designation) as the Principal Officer of our Company / Proprietorship Firm / Partnership Firm with effect from _____ (Date), as decided by our Board of Directors of our Company (In case of Company) in their meeting held on _____ (Date).

The details of the Principal Officer are as follows:

Name of the Principal Officer	:	Mr. / Ms. _____
Designation	:	_____
Address	:	_____

Telephone Nos.	:	_____
Fax No.	:	_____
E-mail	:	_____

We hope the above meets your requirement.

Thanking you,

Yours faithfully,

For _____ (Name of the Sub-broker),

Director / Proprietor / Partner / Compliance Officer

(On the Letter head of the Sub-broker)

Ref:
Date:

The Compliance Officer
ISE Securities & Services Ltd.
International Infotech Park
Tower No.7, 5th Floor
Sector 30, Vashi
Navi Mumbai – 400 703.

Dear Sir,

**Sub: Intimation of appointment of Principal Officer for ISE Securities & Services Ltd.
as required under The Prevention of Money Laundering Act, 2002**
Ref: SEBI circular ref. no. ISD/CIR/RR/AML/2/06 dated March 20, 2006

As required under The Prevention of Money Laundering Act, 2002 and also as required by SEBI through its circular ref. no. ISD/CIR/RR/AML/2/06 dated March 20, 2006, we wish to inform you that we have appointed Mr. / Ms. _____, _____ (Designation) as the Principal Officer of our Company / Proprietorship Firm / Partnership Firm with effect from _____ (Date), as decided by our Board of Directors of our Company (In case of Company) in their meeting held on _____ (Date).

The details of the Principal Officer are as follows:

Name of the Principal Officer : Mr. / Ms. _____
Designation : _____
Address : _____

Telephone Nos. : _____
Fax No. : _____
E-mail : _____

The above details have been intimated to the Financial Intelligence Unit of India, New Delhi vide our letter ref. no. _____ dated _____.

We hope the above meets your requirement.

Thanking you,

Yours faithfully,

For _____ (Name of the Sub-broker),

Director / Proprietor / Partner / Compliance Officer