

**MATALIA STOCK BROKING PRIVATE LIMITED**  
**POLICIES AND PROCEDURE FOR PREVENTION OF MONEY LAUNDERING**  
**(Issued as per the requirements of the PMLA Act 2002)**

## **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 the notification No.ISD/CIR/RR/AML/1/06 dated 18 January 2006 and vide letter March 2006 had issued the obligations of the intermediaries No.ISD/CIR/RR/AML/2/06 dated 20 March, 2006 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?**

- 2.1 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.
- 2.2 This is done in three phases – Placement Phase, Layering Phase & Integration Phase.

## **3. Prevention of Money Laundering Act, 2002**

- 3.1. 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.
- 3.2. 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**

- 4.1. 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.
- 4.2. 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. Company Policy**

It is the policy of the Company to prohibit and actively prevent money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities. Money laundering is generally defined as engaging in acts designed to conceal or disguise the true origins of criminally derived proceeds so that the unlawful proceeds appear to have derived from legitimate origins or constitute legitimate assets.

## **6. Principal Officer Designation and Duties**

The Company has designated Shri Dipak C. Matalia, Director as the Principal Officer for its Anti-Money Laundering Program, with full responsibility for the Company's AML program. The duties of the Principal Officer will include monitoring the Company's compliance with AML obligations and overseeing communication and training for employees. The Principal Officer will also ensure that proper AML records are kept. When warranted, the Principal Officer will ensure filing of necessary reports with the Financial Intelligence Unit (FIU – IND)

The Company has provided the FIU with contact information for the Principal Officer, including name, title, mailing address, e-mail address, telephone number and facsimile number. The Company will promptly notify FIU of any change to this information.

- 6.2. The main aspect of this policy is the Customer Due Diligence Process which means:  
Obtaining sufficient information about to the client in order to identify who is the actual beneficial owner of the securities or on whose behalf transaction is conducted.

Verify the customer's identity using reliable, independent source document, data or information.

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.

6.3. The Customer Due Diligence Process includes three specific parameters:

- a) Policy for Acceptance of Clients.
- b) Client Identification Procedure.
- c) Suspicious Transactions identification & reporting.

## 7. POLICY & PROCEDURE

### 7.1. Customer Acceptance Policy

***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. Preferably accept clients who live within the jurisdiction of the branch. As far as possible, ensure that the new client is introduced by an existing client.

***Accepts client on whom we are able to apply appropriate KYC procedures:***

Obtain complete information from the client. It should be ensured that the initial forms taken by the client are filled in completely. All photocopies submitted by the client are checked against original documents without any exception. Ensure that the 'Know Your Client' guidelines are followed without any exception. All supporting documents as specified by Securities and Exchange Board of India (SEBI) and Exchanges are obtained and verified

***Do not accept clients with identity matching persons known to have criminal background :***

Check 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

***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, 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 .

Cuba, Bolivia, Ethiopia, Ghana, Indonesia, Kenya, Myanmar, Nigeria, Pakistan, Sao Tome and Principe, Sri Lanka, Syria, Tanzania, Thailand, Turkey. (high risk country as per circular no. 16.02.2012 of FATF

***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.

***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.

### 7.2. 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.

7.2.1. Documents which can be relied upon:

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.

**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.

**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.

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

- a. *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.
- b. *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
- c. *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
- d. *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
- e. *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 MSBPL to establish the legal existence of such an association or body of individuals.
- f. *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

Notes:

1. If a potential or existing customer either refuses to provide the information described above when requested, or appears to have intentionally provided misleading information, our Company will not open the new account.
2. All PAN Cards received will be verified from the Income Tax/ NSDL website before the account is opened.
3. The Company will maintain records of all identification information for ten years after the account has been closed.

7.2.3. GENERAL GUIDELINES

1. Always check original documents before accepting the copies
2. Obtain the latest photograph of account holder/ authorized person(s)
3. 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.
4. 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.
5. For scrutiny / background check of the clients, websites such as [www.watchoutinvestors.com](http://www.watchoutinvestors.com) should be referred. Also, Prosecution Database / List of Vanishing Companies available on [www.sebi.gov.in](http://www.sebi.gov.in) and RBI Defaulters Database available on [www.cibil.com](http://www.cibil.com) can be checked.
6. 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.
7. Employee of MSBPL Group should not preferably sign as witness on the CRF
8. If Employee of MSBPL Group introduces the client, exact relation of the client with such employee should be documented.

**8. Risk Profiling of the Client:**

8.1 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 money laundering/terrorist financing/ political exposed persons/ related to political exposed person. 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.

8.2 In order to achieve this objective, all clients of the branch should be classified in the following category:

Category A – Low Risk

Category B – Medium Risk

Category C – High Risk

**Category A** : 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.

**Category B** : Medium risk clients are

1. Clients who are trading in illiquid scripts frequently & with sizable quantity. [i.e. T to T group script (illiquid script as declared by respective stock exchange time to time)].
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 third party person.

**Category C** : High risk clients are

1. Those who have defaulted in the past, have suspicious background, have not any proper financial status, etc. Further SEBI who debarred the entity from access of secondary market.
2. Entities into foreign exchange business.
3. High Networth individuals whose identity and source of wealth is difficult to identify.
4. Trusts, charities, NGOs and organizations receiving donations,
5. Politically Exposed Persons (PEPs)
6. Those with dubious reputation as per public information available, etc.
7. Clients in high risk countries as announced by appropriate authority from time to time

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

8.4 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.

8.5 Any change in the risk profile of the client/mandate holder, has to be ascertained by the Concerned branch officials, and reported to the Business Head immediately.

## **9. Monitoring of 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.

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

**Reasons for Suspicious:**

➤ Identity of client:

- False identification documents
- Identification documents which could not be verified within reasonable time
- Non-face to face client
- Clients in high-risk jurisdiction
- Doubt over the real beneficiary of the account
- Accounts opened with names very close to other established business entities
- 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 a 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

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

- Nature Of Transactions
  - Unusual or unjustified complexity
  - No economic rationale or bonafied purpose
  - Source of funds are doubtful
  - Appears to be case of insider trading
  - Purchases made on own account transferred to a third party through an off-market transactions through DP account.
  - Transactions reflect likely market manipulations
  - Suspicious off market transactions
- Value Of Transactions
  - Value just under the reporting threshold amount in an apparent attempt to avoid reporting
  - Large sums being transferred from overseas for making payments
  - Inconsistent with the clients apparent financial standing
  - Inconsistency in the payment pattern by client
  - Block deal which is not at market price or prices appear to be artificially inflated/deflated

## 9.2. What to Report

- ⤴ The nature of the transactions
- ⤴ The amount of the transaction and the currency in which it was denominated
- ⤴ The date on which the transaction was conducted: and
- ⤴ The parties to the transaction.
- ⤴ The reason of suspicion.

## 10. Maintenance of records

The Principal Officer will be responsible for the maintenance for following records:

- All cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
  - All series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month;
- 1) All cash transactions where forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;
- all suspicious transactions whether or not made in cash. Suspicious transaction means a transaction whether or not made in cash which, to a person acting in good faith -
  - gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
  - appears to be made in circumstances of unusual or unjustified complexity; or
  - appears to have no economic rationale or bonafide purpose; or
  - gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism

The records shall contain the following information:

- the nature of the transactions;
- the amount of the transaction and the currency in which it was denominated;
- the date on which the transaction was conducted; and
- the parties to the transaction."

The records will be updated on daily basis, and in any case not later than 5 working days

## 11. Reporting to FIU IND

### For Cash Transaction Reporting

- All dealing in Cash that requiring reporting to the FIU IND will be done in the CTR format and in the matter and at intervals as prescribed by the FIU IND

### For Suspicious Transactions Reporting

We will make a note of Suspicion Transaction that have not been explained to the satisfaction of the Principal Officer and thereafter report the same to the FIU IND and the required deadlines. This will typically be in cases where we know, suspect, or have reason to suspect:

- the transaction involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity as part of a plan to violate or evade any the transaction reporting requirement,

- the transaction is designed, whether through structuring or otherwise, to evade the any requirements of PMLA Act and Rules framed thereof
- the transaction has no business or apparent lawful purpose or is not the sort in which the customer would normally be expected to engage, and we know, after examining the background, possible purpose of the transaction and other facts, of no reasonable explanation for the transaction, or
- the transaction involves the use of the Company to facilitate criminal activity.

We will not base our decision on whether to file a STR solely on whether the transaction falls above a set threshold. We will file a STR and notify law enforcement of all transactions that raise an identifiable suspicion of criminal, terrorist, or corrupt activities.

All STRs will be reported quarterly to the Board of Directors, with a clear reminder of the need to maintain the confidentiality of the STRs

We will not notify any person involved in the transaction that the transaction has been reported, except as permitted by the PMLA Act and Rules thereof.

## 12. AML Record Keeping

### a. STR Maintenance and Confidentiality

We will hold STRs and any supporting documentation confidential. We will not inform anyone outside of a law enforcement or regulatory agency or securities regulator about a STR. We will refuse any requests for STR information and immediately tell FIU IND of any such request we receive. We will segregate STR filings and copies of supporting documentation from other Company books and records to avoid disclosing STR filings. Our Principal Officer will handle all requests or other requests for STRs.

### b. Responsibility for AML Records and SAR Filing

Principal Officer will be responsible to ensure that AML records are maintained properly and that STRs are filed as required

### c. Records Required

As part of our AML program, our Company will create and maintain STRs and CTRs and relevant documentation on customer identity and verification. We will maintain STRs and their accompanying documentation for at least ten years.

## 13. Training Programs

We will develop ongoing employee training under the leadership of the Principal Officer. Our training will occur on at least an annual basis. It will be based on our Company'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 Company's compliance efforts and how to perform them; the Company's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

We will develop training in our Company, or contract for it. Delivery of the training may include educational pamphlets, videos, intranet systems, in-person lectures, and explanatory memos.

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.

## 14. Program to Test AML Program

### a. Staffing

The testing of our AML program will be performed by the Statutory Auditors of the company

### b. Evaluation and Reporting

After we have completed the testing, the Auditor staff will report its findings to the Board of Directors. We will address each of the resulting recommendations.

## **15. Monitoring Employee Conduct and Accounts**

We will subject employee accounts to the same AML procedures as customer accounts, under the supervision of the Principal Officer. We will also review the AML performance of supervisors, as part of their annual performance review. The Principal Officer's accounts will be reviewed by the Board of Directors

## **16. Confidential Reporting of AML Non-Compliance**

Employees will report any violations of the Company's AML compliance program to the Principal Officer, unless the violations implicate the Compliance Officer, in which case the employee shall report to the Chairman of the Board, Shri Chimanlal P. Matalia. Such reports will be confidential, and the employee will suffer no retaliation for making them.

## **17. Board of Directors Approval**

We have approved this AML program as reasonably designed to achieve and monitor our Company's ongoing compliance with the requirements of the PMLA and the implementing regulations under it.

## **18. Designated Principal Officer**

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

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For Matalia Stock Broking Pvt. Ltd.

Director.