



VACHANA
INVESTMENTS

VACHANA INVESTMENTS PVT LTD

Policy On Prevention Of Money Laundering Act

Table of Contents

Overview	2
Background	2
Policies and Procedures to Combat Money Laundering and Terrorist Financing	3
Essential Principles:	3
Obligation to establish policies and procedures	4
Written Anti Money Laundering Procedures	6
Client Due Diligence (CDD)	7
Client identification procedure	14
Reliance on third party for carrying out Client Due Diligence (CDD)	16
Risk Management	17
Risk-based Approach.....	17
Risk Assessment.....	17
Monitoring of Transactions	18
Suspicious Transaction Monitoring and Reporting	19
Information to be maintained.....	21
Record Keeping.....	21
Retention of Records.....	23
Procedure for freezing of funds, financial assets or economic resources or related services	24
Procedure for implementation of Section 12A of the Weapons of Mass Destruction and their Delivery Systems (Prohibition of Unlawful Activities) Act, 2005 – Directions to stock exchanges and registered intermediaries	24
List of Designated Individuals/ Entities	27
Jurisdictions that do not or insufficiently apply the FATF Recommendations	29
Reporting to Financial Intelligence Unit-India	30
Designation of officers for ensuring compliance with provisions of PMLA	32
Hiring and Training of Employees and Investor Education	34
Repeal and Savings	34

Overview

1. The Directives as outlined below provide a general background and summary of the main provisions of the applicable anti-money laundering and anti-terrorist financing legislations in India. They also provide guidance on the practical implications of the Prevention of Money Laundering Act, 2002 (**PMLA**). The Directives also set out the steps that a registered intermediary or its representatives shall implement to discourage and to identify any money laundering or terrorist financing activities.
2. These Directives are intended for use primarily by intermediaries registered under Section 12 of the Securities and Exchange Board of India Act, 1992 (**SEBI Act**), Stock Exchanges, Depositories and other recognised entities under the SEBI Act and Regulations and rules thereunder. While it is recognized that a "one-size-fits-all" approach may not be appropriate for the securities industry in India, each registered intermediary shall consider the specific nature of its business, organizational structure, type of clients and transactions, etc. when implementing the suggested measures and procedures to ensure that they are effectively applied. The overriding principle is that they shall be able to satisfy themselves that the measures taken by them are adequate, appropriate and abide by the spirit of such measures and the requirements as enshrined in the PMLA.

Background

3. As per the provisions of PMLA and the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (PML Rules), as amended from time to time and notified by the Government of India, every reporting entity (which includes intermediaries registered under section 12 of the SEBI Act, i.e. a stock-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, asset management company, depository participant, merchant banker, portfolio manager, investment adviser and any other intermediary associated with the securities market and registered under Section 12 of the SEBI Act and stock exchanges), shall have to adhere to the client account opening procedures, maintenance records and reporting of such transactions as prescribed by the PMLA and rules notified there under.

The PML Rules empower SEBI to specify the information required to be maintained by the intermediaries and the procedure, manner and form in which it is to be maintained. It also mandates the reporting entities to evolve an internal mechanism having regard to any guidelines issued by the regulator for detecting the transactions specified in the PML Rules and for furnishing information thereof, in such form as may be directed by SEBI.

4. The PMLA inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as provided in Section 12A read with Section 24 of the SEBI Act will be treated as a scheduled offence under schedule B of the PMLA.

Policies and Procedures to Combat Money Laundering and Terrorist Financing

Essential Principles:

5. These Directives have taken into account the requirements of the PMLA as applicable to the intermediaries registered under Section 12 of the SEBI Act. The detailed directives have outlined relevant measures and procedures to guide the registered intermediaries in preventing ML and TF. Some of these suggested measures and procedures may not be applicable in every circumstance. Each intermediary shall consider carefully the specific nature of its business, organizational structure, type of client and transaction, etc. to satisfy itself that the measures taken by it are adequate and appropriate and follow the spirit of the suggested measures and the requirements as laid down in the PMLA and guidelines issued by the Government of India from time to time.
6. In case there is a variance in Client Due Diligence (CDD)/ Anti Money Laundering (AML) standards specified by SEBI and the regulators of the host country, branches/overseas subsidiaries of registered intermediaries are required to adopt the more stringent requirements of the two.

7. If the host country does not permit the proper implementation of AML/CFT measures consistent with the home country requirements, financial groups shall be required to apply appropriate additional measures to manage the ML/TF risks, and inform SEBI.

Obligation to establish policies and procedures

8. Global measures taken to combat drug trafficking, terrorism and other organized and serious crimes have all emphasized the need for financial institutions, including securities market intermediaries, to establish internal procedures that effectively serve to prevent and impede money laundering and terrorist financing. The PMLA is in line with these measures and mandates that all registered intermediaries ensure the fulfilment of the aforementioned obligations.
9. The term "group" shall have the same meaning assigned to it in clause (cba) of sub-rule (1) of Rule 2 of the PML Rules as amended from time to time. Groups shall implement group-wide policies for the purpose of discharging obligations under Chapter IV of the PMLA.
10. Financial groups shall be required to implement group wide programmes for dealing with ML/TF, which shall be applicable, and appropriate to, all branches and majority owned subsidiaries of the financial group as under:
 - a. policies and procedures for sharing information required for the purposes of CDD and ML/TF risk management;
 - b. the provision, at group level compliance, audit, and/or AML/CFT functions, of customer, account, and transaction information from branches and subsidiaries when necessary for AML/CFT purposes. This shall include information and analysis of transactions or activities which appear unusual (if such analysis was done); similar provisions for receipt of such information by branches and subsidiaries from these group level functions when relevant and appropriate to risk management; and

- c. adequate safeguards on the confidentiality and use of information exchanged, including safeguards to prevent tipping-off.

11. To be in compliance with these obligations, the senior management of a registered intermediary shall be fully committed to establishing appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. The registered intermediaries shall:

- i. issue a statement of policies and procedures and implement, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
- ii. ensure that the content of these Directives are understood by all staff members;
- iii. regularly review the policies and procedures on the prevention of ML and TF to ensure their effectiveness. Further, in order to ensure the effectiveness of policies and procedures, the person doing such a review shall be different from the one who has framed such policies and procedures;
- iv. adopt client acceptance policies and procedures which are sensitive to the risk of ML and TF;
- v. undertake CDD measures to an extent that is sensitive to the risk of ML and TF depending on the type of client, business relationship or transaction;
- vi. have a system in place for identifying, monitoring and reporting suspected ML or TF transactions to the law enforcement authorities; and
- vii. develop staff members' awareness and vigilance to guard against ML and TF.

12. Policies and procedures to combat ML and TF shall cover:

- i. Communication of group policies relating to prevention of ML and TF to all management and relevant staff that handle account information, securities

- transactions, money and client records etc. whether in branches, departments or subsidiaries;
- ii. Client acceptance policy and client due diligence measures, including requirements for proper identification;
 - iii. Maintenance of records;
 - iv. Compliance with relevant statutory and regulatory requirements;
 - v. Co-operation with the relevant law enforcement authorities, including the timely disclosure of information;
 - vi. Role of internal audit or compliance function to ensure compliance with the policies, procedures, and controls relating to the prevention of ML and TF, including the testing of the system for detecting suspected money laundering transactions, evaluating and checking the adequacy of exception reports generated on large and/or irregular transactions, the quality of reporting of suspicious transactions and the level of awareness of front line staff, of their responsibilities in this regard; and,
 - vii. The internal audit function shall be independent, adequately resourced and commensurate with the size of the business and operations, organization structure, number of clients and other such factors.

Written Anti Money Laundering Procedures

13. Each registered intermediary shall adopt written procedures to implement the anti-money laundering provisions as envisaged under the PMLA. Such procedures shall include inter alia, the following four specific parameters which are related to the overall 'Client Due Diligence Process':
- i. Policy for acceptance of clients;
 - ii. Procedure for identifying the clients;
 - iii. Risk Management;
 - iv. Monitoring of Transactions.

Client Due Diligence (CDD)

14. Client Due Diligence means due diligence carried out on a client referred to in clause (ha) of sub-section (1) of section 2 of the PMLA using reliable and independent sources of identification.

15. The CDD shall have regard to the money laundering and terrorist financing risks and the size of the business and shall include policies, controls and procedures, approved by the senior management, to enable the reporting entity to manage and mitigate the risk that have been identified either by the registered intermediary or through national risk assessment.

16. The CDD measures comprise the following:
 - i. Obtaining sufficient information in order to identify persons who beneficially own or control the 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 shall be identified using reliable and independent client identification and verification procedures. 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 is being conducted. It also incorporates those persons who exercise ultimate effective control over a legal person or arrangement;
 - ii. Identify the clients, verify their identity using reliable and independent sources of identification, obtain information on the purpose and intended nature of the business relationship, where applicable;
 - iii. Verify the client's identity using reliable, independent source documents, data or information. Where the client purports to act on behalf of juridical person or individual or trust, the registered intermediary shall verify that any person purporting to act on behalf of such client is so authorized and verify the identity of that person;

Provided that in case of a Trust, the reporting entity shall ensure that trustees disclose their status at the time of commencement of an account based relationship.

iv. Identifying beneficial ownership and control, i.e. determine which individual(s) ultimately own(s) or control(s) the client and/or the person on whose behalf a transaction is being conducted. The beneficial owner shall be determined as under-

a) **where the client is a company**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means.

Explanation:- For the purpose of this sub-clause:-

- i. "Controlling ownership interest" means ownership of or entitlement to more than ten per cent of shares or capital or profits of the company;
- ii. "Control" shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders' agreements or voting agreements;

b) **where the client is a partnership firm**, the beneficial owner is the natural person(s) who, whether acting alone or together, or through one or more juridical person, has ownership of/ entitlement to more than ten percent of capital or profits of the partnership or who exercises control through other means.

Explanation:- For the purpose of this clause:-

"Control" shall include the right to control the management or policy decision;

c) **where the client is an unincorporated association or body of individuals**, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than fifteen per cent. of the property or capital or profits of such association or body of individuals;

- d) where no natural person is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official;
- e) **Where the client is a trust**, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with ten per cent or more interest in the trust, settlor, protector and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and
- f) where the client or the owner of the controlling interest is an entity listed on a stock exchange in India, or it is an entity resident in jurisdictions notified by the Central Government and listed on stock exchanges in such jurisdictions notified by the Central Government, or it is a subsidiary of such listed entities, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such entities.
- g) **Applicability for foreign investors**: Registered intermediaries dealing with foreign investors' may be guided by SEBI Master Circular SEBI/HO/AFD-2/CIR/P/2022/175 dated December 19, 2022 and amendments thereto, if any, for the purpose of identification of beneficial ownership of the client;
- h) The Stock Exchanges and Depositories shall monitor the compliance of the aforementioned provision on identification of beneficial ownership through half yearly internal audits. In case of mutual funds, compliance of the same shall be monitored by the Boards of the Asset Management Companies and the Trustees and in case of other registered intermediaries, by their Board of Directors.

- v. Verify the identity of the beneficial owner of the client and/or the person on whose behalf a transaction is being conducted, corroborating the information provided in relation to (iii);
- vi. Understand the nature of business, ownership and control structure of the client;
- vii. Conduct ongoing due diligence and scrutiny, i.e. perform ongoing scrutiny of the transactions and account throughout the course of the business relationship to ensure that the transactions being conducted are consistent with the registered intermediary's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds.
- viii. Registered intermediaries shall review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be, when there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained client identification data.
- ix. Registered intermediaries shall periodically update all documents, data or information of all clients and beneficial owners collected under the CDD process such that the information or data collected under client due diligence is kept up-to-date and relevant, particularly for high risk clients.
- x. Every registered intermediary shall register the details of a client, in case of client being a non-profit organisation, on the DARPAN Portal of NITI Aayog, if not already registered, and maintain such registration records for a period of five years after the business relationship between a client and the registered intermediary has ended or the account has been closed, whichever is later.
- xi. Where registered intermediary is suspicious that transactions relate to money laundering or terrorist financing, and reasonably believes that performing the CDD process will tip-off the client, the registered intermediary shall not pursue the CDD process, and shall instead file a STR with FIU-IND.

17. No transaction or account-based relationship shall be undertaken without following the CDD procedure.

Policy for acceptance of clients

18. All registered intermediaries shall develop client acceptance policies and procedures that aim to identify the types of clients that are likely to pose a higher than average risk of ML or TF. By establishing such policies and procedures, they will be in a better position to apply client due diligence on a risk sensitive basis depending on the type of client business relationship or transaction. In a nutshell, the following safeguards are to be followed while accepting the clients:

- i. No registered intermediary shall allow the opening of or keep any anonymous account or account in fictitious names or account on behalf of other persons whose identity has not been disclosed or cannot be verified;
- ii. Factors of risk perception (in terms of monitoring suspicious transactions) of the client are clearly defined having regard to clients' location (registered office address, correspondence addresses and other addresses if applicable), nature of business activity, trading turnover etc. and manner of making payment for transactions undertaken. The parameters shall enable classification of clients into low, medium and high risk. Clients of special category (as given below) may, if necessary, be classified even higher; Such clients require higher degree of due diligence and regular update of Know Your Client (KYC) profile;
- iii. The registered intermediaries shall undertake enhanced due diligence measures as applicable for Clients of Special Category (CSC). CSC shall include the following:
 - a) Non - resident clients;
 - b) High net-worth clients;
 - c) Trust, Charities, Non-Governmental Organizations (NGOs) and organizations receiving donations;
 - d) Companies having close family shareholdings or beneficial ownership;
 - e) Politically Exposed Persons" (PEPs). PEP shall have the same meaning as given in clause (db) of sub-rule (1) of rule 2 of the PML Rules. The additional

norms applicable to PEP as contained in the subsequent paragraph 20 of the master circular shall also be applied to the accounts of the family members or close relatives / associates of PEPs;

- f) Clients in high risk countries. While dealing with clients from or situated in high risk countries or geographic areas or when providing delivery of services to clients through high risk countries or geographic areas i.e. places where existence or effectiveness of action against money laundering or terror financing is suspected, registered intermediaries apart from being guided by the FATF statements that inter alia identify such countries or geographic areas that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org) from time to time, shall also independently access and consider other publicly available information along with any other information which they may have access to. However, this shall not preclude registered intermediaries from entering into legitimate transactions with clients from or situated in such high risk countries and geographic areas or delivery of services through such high risk countries or geographic areas. The intermediary shall specifically apply EDD measures, proportionate to the risks, to business relationships and transactions with natural and legal persons (including financial institutions) from countries for which this is called for by the FATF;
- g) Non face to face clients - Non face to face clients means clients who open accounts without visiting the branches/offices of the registered intermediaries or meeting the officials of the registered intermediaries. Video based customer identification process is treated as face-to-face onboarding of clients;
- h) Clients with dubious reputation as per public information available etc.

The above mentioned list is only illustrative and the intermediary shall exercise independent judgment to ascertain whether any other set of clients shall be classified as CSC or not.

- iv. Documentation requirements and other information to be collected in respect of different classes of clients depending on the perceived risk and

having regard to the requirements of Rule 9 of the PML Rules, Directives and Circulars issued by SEBI from time to time.

- v. Ensure that an account is not opened where the intermediary is unable to apply appropriate CDD measures. This shall apply 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 - co-operation of the client in providing full and complete information. The registered intermediary shall not continue to do business with such a person and file a suspicious activity report. It shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account. The registered intermediary shall be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, the registered intermediary shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.
- vi. The circumstances under which the client is permitted to act on behalf of another person / entity shall be clearly laid down. It shall be specified in what manner the account shall be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity/value and other appropriate details. Further the rights and responsibilities of both the persons i.e. the agent-client registered with the intermediary, as well as the person on whose behalf the agent is acting shall be clearly laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.
- vii. Necessary checks and balance to be put into place 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.
- viii. The CDD process shall necessarily be revisited when there are suspicions of ML/TF.

Client identification procedure

19. The KYC policy shall clearly spell out the client identification procedure (CIP) to be carried out at different stages i.e. while establishing the intermediary – client relationship, while carrying out transactions for the client or when the intermediary has doubts regarding the veracity or the adequacy of previously obtained client identification data.
20. Registered intermediaries shall be in compliance with the following requirements while putting in place a CIP:
- i. All registered intermediaries shall proactively put in place appropriate risk management systems to determine whether their client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures shall include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPs.
 - ii. All registered intermediaries are required to obtain senior management approval for establishing business relationships with PEPs. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, registered intermediaries shall obtain senior management approval to continue the business relationship.
 - iii. Registered intermediaries shall also take reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.
 - iv. The client shall be identified by the intermediary by using reliable sources including documents / information. The intermediary shall obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.
 - v. The information must be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed by the intermediary in compliance with the directives. Each original document shall be seen prior to acceptance of a copy.
 - vi. Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority within the intermediary.

21. SEBI has specified the minimum requirements relating to KYC for certain classes of registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms which have already been specified or which may be specified by SEBI from time to time, all registered intermediaries shall frame their own internal directives based on their experience in dealing with their clients and legal requirements as per the established practices.
22. Further, the intermediary shall conduct ongoing due diligence where it notices inconsistencies in the information provided. The underlying objective shall be to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued thereunder so that the intermediary is aware of the clients on whose behalf it is dealing.
23. Every intermediary shall formulate and implement a CIP which shall incorporate the requirements of the PML Rules Notification No. 9/2005 dated July 01, 2005 (as amended from time to time), which notifies rules for maintenance of records of the nature and value of transactions, the procedure and manner of maintaining and time for furnishing of information and verification of records of the identity of the clients of the banking companies, financial institutions and intermediaries of securities market and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients.

It may be noted that irrespective of the amount of investment made by clients, no minimum threshold or exemption is available to registered intermediaries (brokers, depository participants, AMCs etc.) from obtaining the minimum information/documents from clients as stipulated in the PML Rules/ SEBI Circulars (as amended from time to time) regarding the verification of the records of the identity of clients. Further no exemption from carrying out CDD exists in respect of any category of clients. In other words, there shall be no minimum investment threshold/ category-wise exemption available for carrying out CDD measures by registered intermediaries. This shall be strictly

implemented by all registered intermediaries and non-compliance shall attract appropriate sanctions.

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

24. Registered intermediaries may rely on a third party for the purpose of -

- i. identification and verification of the identity of a client and
- ii. 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.

25. 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. In terms of Rule 9(2) of PML Rules:

- i. The registered intermediary shall immediately obtain necessary information of such client due diligence carried out by the third party;
- ii. The registered intermediary shall take adequate steps to satisfy itself that copies of identification data and other relevant documentation relating to the client due diligence requirements will be made available from the third party upon request without delay;
- iii. The registered intermediary shall be satisfied that such third party is regulated, supervised or monitored for, and has measures in place for compliance with client due diligence and record-keeping requirements in line with the requirements and obligations under the Act;
- iv. The third party is not based in a country or jurisdiction assessed as high risk;
- v. The registered intermediary shall be ultimately responsible for CDD and undertaking enhanced due diligence measures, as applicable.