



**STANDARD
OPERATIONS | PROCEDURES | POLICIES**

**THIRANI SECURITIES PVT. LTD.
2012-2013**

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A. CLIENT REGISTRATION POLICY

The agreement along with the Know Your Client (KYC) and Risk disclosure document (RDD) should be signed by the client. The required documents should be collected from the clients strictly as per the documents mentioned in the checklist of the agreement book.

1. Primary Client Agreement checking by our employee including interview of client.
2. Final Checking by Compliance/principal officer including interview if required
3. Allotment of Client Code
4. Uploading the client details to the NSE.
5. On receipt of Valid Report, Confirming the codes allocated to clients.
6. Filing of Client Registration Kit.
7. Deactivation of Client Code on receipt of written documents from Client and/or from Compliance Officer/ board of directors.
8. Half yearly review by Internal Auditors
9. Identify 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;

B. TRADING POLICY

- I. Dealers should be vigilant in executing the orders of the client. They should check & report to senior authorities if any client is giving order of abnormal quantity or rates.
- II. Every client should be contacted after the market hours for trade confirmation. The clients should be asked for the settlement of their obligation before settlement date of the exchange.
- III. Every client must be attended by the staff allocated for the purpose and in his absence, compliance officer must ensure that client is attended by another dealer. Staff/ dealer should check the margin availability/credit limit of the client before executing any trade on his behalf.

- IV. These steps will help us to trace any discrepancies in the trade as well as timely receipt of cheques and securities from the clients and provide better service.
- V. The senior management team is responsible for the above.
- VI. Any Client who does not trade for the last 6 months will be termed as Dormant and will be marked as inactive. Such review of client will be done every 6 months. The Client can be re-activated on receiving a written request from the client.

C. RISK MANAGEMENT & SURVEILLANCE POLICY:-

Preface:-Risk Management is an integral part of any organization. We need to deal with various kind of risk like credit Risk, Market Risk, default Risk, liquidity Risk and other risk.

In Securities Market, customers have to be alerted with respect to their obligations, open positions, market conditions, Margin requirements, regulatory requirements and step initiated by brokers in case of changing market situations.

With a view to enhance customer knowledge and safeguarding investor interests, TSPL have devised a comprehensive Risk Management & Surveillance (RMS) Policy to make sure that customers are aware of criteria based on which TSPL monitors risk and initiates actions to safeguard the interest.

Major parameters of RMS Policy are mentioned below:

1. Setting Up Clients Exposure Limit :

Cash Segment: Exposure constitutes both a purchase and sale transactions of shares & securities. A purchase transaction includes buying of securities and it remains as Exposure till client gives full payment for the shares bought. A sale involves a share delivery obligation to the Exchange and it remains an Exposure till the client delivers the shares. Exposure will mean the aggregate of the outstanding purchases and sales.

Exposure limit of the client will be set on the basis of available margin. The limits may be allowed on a multiplier basis to the available margin depending on the market conditions and the risk perception about the market / client. However in exceptional situations TSPL may use its own discretion in providing the limits and may change for a client or for all depending on market conditions.

The exposure in Cash Segment will be as under:-

Normal Market Condition	Panic Market Condition
4 times of Margin on delivery trades 10 times of margin on intraday trades	As per discretion of management

* The market would be categorized as Panic Market if the index movement is 5% in a single day or a cumulative movement of 10% (either side movement) in consecutive sessions or is declared specifically by TSPL in case of emergency or before some important events for the limited purpose of this Risk Management Policy.

Customer can utilize the limit as per his desire for the available product. In case the same is used for one product then the limit will be adjusted for the other product automatically. Further trading limits are provided only on realized cheques and fund transfer done using payment gateway in both the segment.

The above exposure limits can be reduced to one time based on clients profile & TSPL's risk appetite.

In addition to above, TSPL applies specific scrip wise Margin, hence few scrips can attract higher Margin than the normal margin available for liquid scrips, this can vary in the range of 50% to 100%.

In other case the Exchange increases the Margin requirement in any scrip, TSPL can reduce the Exposure in that particular scrip as per the Exchange Margin requirement i.e. say Exchange has increased the Margin in Scrip XYZ Ltd by 100%. TSPL may reduce the Exposure to half in XYZ Ltd. Apart from this scrip, client will be having Normal Exposure in total as per above guidelines.

F & O and Currency Derivatives Segment :

Derivative Segment is a Margin driven segment. Margin will be collected as per the requirement of the Exchange. i.e. SPAN Margin + Exposure Margin + Additional Margin (if

any made applicable by the Exchange). In case of panic market additional margin can be collected by TSPL looking at market conditions.

Scrip's acceptable as collateral – Only approved list of stocks as per exchange for F & O Margin will be accepted after a haircut applicable as per Exchange. However stock margin shall not be accepted in CDS segment.

Further to fulfill the Exchange Margin requirement, TSPL may pull the share equivalent to margin requirement from clients DP Account based on POA given by client. The Exposure in F & O and CDS Segment will be as under :-

<u>Segment</u>	<u>Margin Required</u>
Futures	Span + Exposure
Options Buy	Amount of Buy Premium
Options Sell	Margin as prescribed by exchange

2. Right to sell clients securities (RMS selling) or close clients positions on account of non-payment of client dues :

It is client's obligation to clear his obligations on T+2 days (T indicates Trading day). The client shall timely provide funds / securities to TSPL for the purchase / sale of securities for meeting his obligations to the Exchange. In case of client falling short of providing fund / securities, TSPL has the right to close the positions / sell the clients securities with or without giving prior notice to client to the extent of ledger debit and / or to the extent of margin obligations. TSPL can liquidate the securities bought or collaterals given or any other security given by client in any other form for clearing the clients obligations.

RMS Selling criteria in Cash Segment

RMS selling in clients account will be done on T+2+5 days (T indicates Trading day) for the Ledger debit on due basis. For example, if the position has been taken on Monday then the funds payment is due on Wednesday (T+2 day). Shares so bought on Monday will be

withheld by TSPL till the debit is cleared. If the funds are not received by Wednesday within market hours, shares will be sold on following Wednesday.

The days considered for the calculation will be the trading days only and shall exclude holidays. In case stock valuation falls below 20% of the total ledger debit, square off can be done even before T+2+5 days.

RMS Selling criteria in F & O and CDS Segment

In case of F&O segment, RMS selling will be done T+2 basis for the Mark to Market (MTM) debit / Margin Shortfall.

If MTM reaches 80% of the deposit RMS selling can be done even before above stipulated days.

In case of panic market conditions, RMS selling will be done on T+1 basis.

Selling sequence when TSPL does RMS selling

- I. The open position in F&O Segment will be squared off towards margin shortage.
- II. In case there is ledger debit in client's accounts, collateral stocks to the extent of ledger debit (including MTM) will be sold off.

Further Client might be suspended from Trading on RMS selling day and suspension would be removed after selling.

3. Other Surveillance Actions:

Refusal of order for penny stocks / illiquid contracts:

- I. TSPL may refuse or restrict a client in placing the order in certain securities depending on various conditions like volume / value / part of illiquid scrip's of securities although a client may have credit balance or sufficient margin in the trading account. However TSPL under exceptional circumstances may execute clientele order. TSPL has the discretion to reject execution of such orders based on its risk perception.
- II. Regulatory conditions under which a client may not be allowed to take further position or TSPL may close the existing position of the client:

In case overall position in a scrip / derivatives contract has reached the Regulators prescribed Exchange limit / Market wide open interest limit / Client level limit, then client may not be allowed to take further positions, till such time Regulators prescribed limit comes down to create a new position.

Further TSPL may close the existing position of a client to the extent of debit balance to release the margin from the Exchange. In case if TSPL has sufficient margin cover on behalf of its clients, it may still decide based on the market conditions and risk perception not to allow further position or may close the existing position of a client.

4. PMLA Guidelines :

Client will be categorized as high, Medium and Low risk customer as per their risk appetite and their current profile as mentioned in Know your client form (KYC). The same will be reviewed at regular intervals.

Exposure to client may also be governed by customer profiling mentioned above as well as clients financial income made available to TSPL from time to time. Client needs to furnish their income details on yearly basis. Following documents will be accepted as a income proof

- Copy of ITR Acknowledgement
- Copy of Annual Accounts
- Copy of Form 16 in case of salary income
- Net worth certificate
- Salary Slip
- Bank account statement for last 6 months
- Copy of demat account Holding statement.
- Any other relevant documents substantiating ownership of assets.
- If there is a major disparity between financial details and trading volumes, client will be asked to furnish suitable explanation and based on the same further trading limits will be sanctioned.

5. Suspension of Clients:

TSPL may withhold the payout of client and suspend his trading account due to any internal Surveillance (if client indulges into manipulative trade practice) / regulatory orders (debaring orders) / if the client is inactive (not traded > 6 months)

5. Communication

Client can view details of his ledger, margin, shortfall etc through his secured login on TSPL website. The client has to be aware about his position, outstanding balance and Risk. TSPL is under no legal Obligation to send any separate communication but as a customer centric company we may take extra efforts generally to ensure that client is well informed about the Risk and the possible actions, which may follow. The communication would generally be through SMS / Email on registered contact details with TSPL.

6. Disclaimer

TSPL Management will have a discretion to alter/change any of Exposure limit, selling paramete defined in this policy on the basis of prevailing market conditions with or without prior intimation and can use their discretion to grant any kind of exemption/permission in case they deem fit on case to case basis.

D. CONTRACT NOTE POLICY

- I. Contract note generation and dispatch is done centrally from Head Office.
- ii. We are sending physical contract notes/ECN, as per clients request, along with client margin report to the clients on daily basis. All the courier list and/or counterfoil and/or copy of ECN of the contract note duly receipted by the client is preserved properly for verification and resolving any non-delivery issue with the client. Duplicates are also made available on request. Client can further fetch archived copies of his contract notes from the Online Backoffice Login System.

E. PAYMENT POLICY

- I. Payments to clients are made on Pay out basis i.e within 24 hours of pay out (T+2 day) in case of clear credit and where clients had requested. For branches where clients are not able to collect cheques themselves cheques would couriered to them from HO.

- II. For clients who are desirous of keeping the pay out money with us as margin money can do so by signing the running account authorization letter mentioning therein not to issue cheques until a written request is made.
- III. Clients, who have debit balance in one segment and credit balance in other segment will be paid only if their net balance is credit.
- IV. Margin Money to the clients will be returned only after adjusting debit balance, if any, in their account and/or if they have not defaulted in their obligation to deliver shares/securities.
- V. Payments to the clients will be directly deposited in their account if they give mandate to this effect and they have account in the same bank, where the company has its account.

F. RECEIPT POLICIES

- I) Cheques from clients would be accepted only of those banks whose details have been provided during client registration.
- II) No third party cheques would be accepted.
- III) NO CASH PAYMENT IS ACCEPTED.
- IV) DD is Accepted subject to the following conditions:
 - a) The DD has to be made from client bank account
 - b) The DD is accompanied with the original DD slip and declaration from client incase DD is not made from the client bank account.
- V) The branches should mail the details of the cheques deposited directly to the bank at specified e-mail ids/or by Facsimile. The branches/clients should ensure that HO should receive the mails/faxes by 6 pm so that the benefit of the payment made by the clients can be posted to the ledger on the same day.
- VI) Clients are advised not deposit any cash/cheque directly to company's account. If cheque is deposited then intimation should be given in writing along with pay in slips otherwise credit will not given to client till proper documents are received from client.

- VII) For outstation cheques, payments made by the clients would be not posted to the account of the clients unless HO receives credit for the same by the bank.
- VIII) Local Cheques received within 2 PM will be posted to the ledger on the same day. The effect of the cheques received beyond 2 PM would be given on the next day.

G. ERROR POLICY AND CODE MODIFICATION

- I) With reference to SEBI circular ref. no. CIR/DNPD/6/2011 dated July 5, 2011 regarding modification of client codes of Non-Institutional trades. As per the SEBI circular, the following client code modifications would be considered as genuine modifications, provided there is no consistent pattern in such modifications:
 - i) Where original client code/name and modified client code/name are similar to each other but such modifications are not repetitive.
 - ii) Where original client code and modified client code belong to a family. (Family for this purpose means spouse, dependent parents, dependent children and HUF)
- II) The facility for client code modification can be used only in case of Error Trade.
- III) The client code modification shall be carried out only on the designated system and/or as per the process as may be prescribed by SEBI/ Stock Exchange.
- IV) No code modification will be effected in back office.
- V) Any client code Modification shall, subject to compliance of this policy, be carried out by RMS at HO of all the Error Trades happened on NSE.

G. BLOG / CHAT POLICY

- I) We ensure that none of our employees disperse any news in the market until & unless it is being properly communicated to the Management of the Firm.
- II) We do not spread rumors or any news either in the market to any of our client till the time we have proper factual evidence to backup the same.
- III) Also, none of the employees or compliance officer of the firm has the right regulate any news/BLOG or Chat to any person either the client or any other person without the prior consent of the Management.

IV) Also, we never have any intention to mis represent any of our clients or any outside person or a member by any means.

H. MARGIN POLICY

1. Capital Market Segment

- I. No Purchase order will be entertained unless suitable upfront margin or credit balance is lying in the client account.
- II. In certain cases margin is specifically exempted to any client by the management.
- III. Sale order will be executed only on delivery of shares to 'Ben' account before orders are executed unless management allows the shares to be sold before receipt of shares.
- IV. On non delivery of shares in time due to fault of client, auction charges along with extra fine will be payable by the client.

2. Future & Option and Currency Derivatives Segment

- I. Margin will be accepted in 'Cash' only unless management decides otherwise.
- II. If margin is accepted in the form of shares, a suitable hair cut will be computed on the price at the day end. All short fall will have to be met immediately by the client in cash on/or before opening of next trading session, which ever is earlier. No letter or written communication in this regard will be sent to any client for shortage of margin. The client will be responsible for any shortage of his margin with us for his outstanding trades.
- III. No complaint will be entertained for squaring off of outstanding trades or liquidating of margin by the management in absence of short fall of margin at any stage by the client. It will be sole discretion of the management to decide on 'spot' whether to square off outstanding trades of a client and margin be liquidated to meet the short fall.
- IV. Any amount payable on account of 'Marked to market' has to be paid in cash by the client before opening of next trading session. Amount paid must be in the form of clear bank balance or high value cheques given on the day of trade. If

clear balance of margin/ MTM is not available, the management will at its sole discretion square off the trades of any client, which in its opinion can put the company or its other clients to risk.

I. SECURITIES CONTROL POLICY

1. Collection of securities

- I. To ensure that clients are delivering the shares from their own account and all the deliveries to/from the clients correspond with the details provided by the client with their registration.
- II. The statement should be checked with the securities obligation of the clients. Any third party delivery from the clients should not be delivered to Clearing house.
- III. No credit to clients should be given even though shares received from third party has been delivered to clearing house due to any technical reasons beyond management's control. If client provides sufficient written proof of ownership of such account/share, then after updating client database, client may be given effect of the same.
- IV. The reports provided by Exchange should be used to check whether there is any short pay-in/ out of securities to/from Clearing house

2. Delivery of Securities

- I. The company will be making direct pay-out of shares to client account of which details are given in Client Registration Kits.
- II. The direct pay-out file should be created by the back office software.
- III. The instruction slip for shares delivery from the Pool account in case of client to client transaction or part delivery from the Clearing house should be signed by the designated authorities.
- IV. Pay out shares shall be given to clients only when they have clear balance in their ledger account. (*The clear balance means that cheques issued by clients should have been cleared in bank.)
- V. Shares of clients having debit balance will be kept with the company as hold back margin.

- VI. In case shares are sold which are lying in our hold back margin a demat charges of designated amount per script will be debited to the client's ledger account. Similarly in case of Inter-settlement demat charges of designated amount per script would be debited.

J. BRANCH CONTROL POLICY

- I. Compliance Officer will be responsible for checking & controlling day to day affairs of the branches for any trading problems.
- II. Branches will be opened for sole purpose of allowing clients to get their orders executed. Clients will be allowed to trade from only one specified branch for better control & service. Branch manager will be responsible for all activities & trades executed from any branch and solving any client related problems in consultation with compliance officer.
- III. All Client Registration Kits will be approved at the head office and will be required to be counter signed by the branch head from where client has shown his interest to trade. Branch head will be responsible for all trades executed from his branch and putting all surveillance system to keep tab on 'unfair' trade practices like '123' etc.
- IV. All contract notes will be generated at head office and couriered / mailed to respective clients within 24 hours of the trade.

K. BACKUP POLICY

This policy defines the backup policy for computers within the organization, which are expected to have their data backed up. These systems are typically servers but are not necessarily limited to servers.

1. Purpose

This policy is designed to protect data in the organization to be sure it is not lost and can be recovered in the event of an equipment failure, intentional destruction of data, or disaster.

2. Scope

This policy applies to all equipment and data owned and operated by the organization.

3. Definitions

- I. Backup - The saving of files onto magnetic tape or other offline mass storage media for the purpose of preventing loss of data in the event of equipment failure or destruction.
- II. Archive - The saving of old or unused files onto magnetic tape or other offline mass storage media for the purpose of releasing on-line storage room.
- III. Restore - The process of bringing off line storage data back from the offline media and putting it on an online storage system such as a file server.

4. Procedure

- I. All data, utility files are backed up systematically.
- II. Backup is automatically taken on Main accounts server using RAID3 system. The system Mirrors all data on 3 server-class hard disks simultaneously, providing instant fail over capability in the event of hardware failure. The system also has dual power supply with fail over ensuring ZERO downtime due to hardware issue of such nature.
- III. Weekly main data backup is taken on separate back office computer
- IV. Weekly backup is taken simultaneously on external harddisk that is maintained in offsite location.
- V. Monthly testing of data restoration is done from both backups to ensure data security.
- VI. A yearly master backup is created on DVD Disk, these disks are stored on offsite secure location. The disks are tested after creating backup to ensure data security.
- VII. All media and files are adequately labeled to ensure quick retrieval and identification.

L. POLICY ON ANTI MONEY LAUNDERING MEASURES

PART - I OVERVIEW

- 1 Introduction**
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- 3 Policies and Procedures to Combat Money Laundering and Terrorist financing**
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PART - II DETAILED OBLIGATIONS

- 4 Written Anti Money Laundering Procedures**
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 - 5.1 Elements of Client Due Diligence**
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- 6 Record Keeping**
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- 10 Suspicious Transaction Monitoring & Reporting**
- 11 List of Designated Individuals/Entities**
- 12 Procedure for freezing of funds, financial assets or economic resources or**

related services

- 13 Reports to Financial Intelligence Unit- India**
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- 15 Employees' Hiring/Training and Investor Education**
- 16 Annexure- List of various Reports and their formats.**

PART – I OVERVIEW

1. Introduction

Thirani Securities Pvt.Ltd. (hereinafter referred to as the 'Company') incorporated on 11th april, 1985 under Companies Act, 1956 as a Company, is Securities Exchange Board of India (SEBI) registered broker of the National Stock Exchange of India Ltd. (NSE),.

2. Back Ground

The PMLA came into effect from 1st July 2005. Necessary Notifications / Rules under the said Act were published in the Gazette of India on 1st July, 2005 by the Department of Revenue, Ministry of Finance, Government of India. The PMLA has been further amended vide notification dated March 6, 2009 and inter alia provides that violating the prohibitions on manipulative and deceptive devices, insider trading and substantial acquisition of securities or control as prescribed in Section 12 A read with Section 24 of the Securities and Exchange Board of India Act, 1992 (**SEBI Act**) will now be treated as a scheduled offence under schedule B of the PMLA.

3. Policies and Procedures to Combat Money Laundering and Terrorist financing

3.1 Essential Principles

3.1.1 The detailed Directives in Part II have outlined relevant measures and procedures that T.SEC will adopt and enforce to help in preventing ML and TF. Some of these suggested measures and procedures may not be applicable in every circumstance.

3.2 Obligation to establish policies and procedures

3.2.2 To be in compliance with these obligations, the senior management of T.SEC has established appropriate policies and procedures for the prevention of ML and TF and ensuring their effectiveness and compliance with all relevant legal and regulatory requirements. T.SEC shall/have:

- I) Issued a statement of policies and procedures, on a group basis where applicable, for dealing with ML and TF reflecting the current statutory and regulatory requirements;
- II) Ensured 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 client due diligence (“**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.
- VII) Develop staff members’ awareness and vigilance to guard against ML and TF

PART - II DETAILED DIRECTIVES

4. Written Anti Money Laundering Procedures

4.1 The following three specific parameters which are related to the overall ‘**Client Due Diligence Process**’ ,**Policies adopted by T.SEC are in accordance with the following:**

- a. Policy for acceptance of clients
- b. Procedure for identifying the clients
- c. Transaction monitoring and reporting especially Suspicious Transactions Reporting (STR).

5. Client Due Diligence

5.1 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 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) Verify the client's identity using reliable, independent source documents, data or information;
- III) Identify 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;
- IV) 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 (c);
- V) Understand the ownership and control structure of the client;
- VI) Conduct on going 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 T.SEC's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds.
- VII) T.SEC shall periodically update all documents, data or information of all

clients and beneficial owners collected under the CDD process.

- VIII) Identify 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;
- IX) 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 (h); and 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.

5.2 Policy for acceptance of clients:

5.2.1 T.SEC has developed 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, T.SEC is 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 followed while accepting the clients:

- I. No account is opened in a fictitious / benami name or on an anonymous basis.
- 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. 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.

- IV. Ensure that an account is not opened where the T.SEC is unable to apply appropriate CDD measures / KYC policies. This shall be applicable in cases where it is not possible to ascertain the identity of the client, or the information provided to the T.SEC is suspected to be non genuine, or there is perceived non co-operation of the client in providing full and complete information. The T.SEC shall not continue to do business with such a person and file a suspicious activity report. T.SEC shall also evaluate whether there is suspicious trading in determining whether to freeze or close the account.
The T.SEC shall be cautious to ensure that it does not return securities of money that may be from suspicious trades. However, the T.SEC shall consult the relevant authorities in determining what action it shall take when it suspects suspicious trading.
- V. The circumstances under which the client is permitted to act on behalf of another person / entity is clearly laid down. It is 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 T.SEC, as well as the person on whose behalf the agent is acting is laid down. Adequate verification of a person's authority to act on behalf of the client shall also be carried out.
- VI. Necessary checks and balances are 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.
- VII. The CDD process shall necessarily be revisited when there are suspicions of money laundering or financing of terrorism (ML/FT).

5.3 Risk-based Approach

5.3.1 It is generally recognized that certain clients may be of a higher or lower risk category depending on the circumstances such as the client's background, type of

business relationship or transaction etc. As such, T.SEC applies each of the client due diligence measures on a risk sensitive basis.

5.4 Clients of special category (CSC):

Such clients include the following-

- 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**) are 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. The additional norms applicable to PEP as contained in the subsequent para 5.5 of this circular shall also be applied to the accounts of the family members or close relatives of PEPs.
- VI. Companies offering foreign exchange offerings
- VII. Clients in high risk countries where existence / effectiveness of money laundering controls is suspect, where there is unusual banking secrecy, countries active in narcotics production, countries where corruption (as per Transparency International Corruption Perception Index) is highly prevalent, countries against which government sanctions are applied, countries reputed to be any of the following – Havens/ sponsors of international terrorism, offshore financial centers, tax havens, countries where fraud is highly prevalent. While dealing with clients in high risk countries where the existence/effectiveness of money laundering control is suspect, intermediaries apart from being guided by the Financial Action Task Force (FATF) statements that identify countries that do not or insufficiently apply the FATF Recommendations, published by the FATF on its website (www.fatf-gafi.org), shall also

independently access and consider other publicly available information.

- I. Non face to face clients
- II. Clients with dubious reputation as per public information available etc.

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

5.5 Client identification procedure:

- I. T.SEC have 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. This procedure includes seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures as outlined in the document shall also be applicable where the beneficial owner of a client is a PEP.
- II. T.SEC will 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. T.SEC will 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 T.SEC by using reliable sources including documents/ information. T.SEC will 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 T.SEC 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 T.SEC

5.5.1 SEBI has prescribed the minimum requirements relating to KYC for certain classes of registered intermediaries from time to time as detailed in the table. Taking into account the basic principles enshrined in the KYC norms which have already been prescribed or which may be prescribed by SEBI from time to time, T.SEC has framed their own internal directives based on their experience in dealing with their clients and legal requirements as per the established practices. Further, T.SEC 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 T.SEC is aware of the clients on whose behalf it is dealing.

5.5.2 T.SEC formulates and implements a CIP which incorporates 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. PML Rules have recently been amended vide notification No. 13/2009 dated November 12, 2009 and need to be adhered to by registered intermediaries.

5.3 It may be noted that irrespective of the amount of investment made by clients and irrespective of any category of client, there are no exemption from carrying out CDD measures.

6. Record Keeping

6.1 T.SEC ensures compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PMLA as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

6.2 T.SEC maintains such records as are sufficient to permit reconstruction of individual transactions (including the amounts and types of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior.

6.3 Shall there be any suspected drug related or other laundered money or terrorist property, the competent investigating authorities would need to trace through the audit trail for reconstructing a financial profile of the suspect account. To enable this reconstruction T.SEC retains the following information for the accounts of their clients in order to maintain a satisfactory audit trail:

(a) the beneficial owner of the account;

(b) the volume of the funds flowing through the account; and

(c) for selected transactions:

- The origin of the funds;
- The form in which the funds were offered or withdrawn, e.g. cheques, demand drafts etc.
- The identity of the person undertaking the transaction;
- The destination of the funds;
- The form of instruction and authority.

6.4 T.SEC ensures that all client and transaction records and information are available on a timely basis to the competent investigating authorities. Where required by the investigating authority, they shall retain certain records, e.g. client identification, account files, and business correspondence, for periods which may exceed those required under the SEBI Act, Rules and Regulations framed there-under PMLA, other relevant legislations, Rules and Regulations or Exchange bye-laws or circulars.

6.5 T.SEC has put in place a system of maintaining proper record of transactions prescribed under Rule 3 of PML Rules as mentioned below:

- I. All cash transactions of the value of more than rupees ten lakh or its equivalent in foreign currency;
- II. All series of cash transactions integrally connected to each other which have

been valued below rupees ten lakh or its equivalent in foreign currency where such series of transactions have taken place within a month and the aggregate value of such transactions exceeds rupees ten lakh.

- III. 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.
- IV. All suspicious transactions whether or not made in cash and by way of as mentioned in the Rules.

7. Information to be maintained

T.SEC maintains and preserves the following information in respect of transactions referred to in Rule 3 of PML Rules:

- I. The nature of the transactions;
- II. The amount of the transaction and the currency in which it is denominated;
- III. The date on which the transaction was conducted; and
- IV. The parties to the transaction.

8. Retention of Records

8.1 TSEC has taken appropriate steps to evolve an internal mechanism for proper maintenance and preservation of such records and information in a manner that allows easy and quick retrieval of data as and when requested by the competent authorities. Further, the records mentioned in Rule 3 of PML Rules have to be maintained and preserved for a period of ten years from the date of transactions between the client and T.SEC.

8.2 As stated in sub-section 5.5, intermediaries are required to formulate and implement the CIP containing the requirements as laid down in Rule 9 of the PML Rules and such other additional requirements that it considers appropriate. The records of the identity of clients have to be maintained and preserved for a period of ten years from the date of cessation of transactions between the client and T.SEC, i.e. the date of termination of an account or business relationship between the client and T.SEC

8.3 Thus the following document retention terms shall be observed:

- I. All necessary records on transactions, both domestic and international, shall be maintained atleast for the minimum period prescribed under the relevant Act and Rules (PMLA and rules framed thereunder as well SEBI Act) and other legislations, Regulations or exchange bye-laws or circulars.
- II. Records on client identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence shall also be kept for the same period.
- III. In situations where the records relate to on-going investigations or transactions which have been the subject of a suspicious transaction reporting, they shall be retained until it is confirmed that the case has been closed.

9. Monitoring of transactions

9.1 T.SEC pays special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose. T.SEC may specify internal threshold limits for each class of client accounts and pay special attention to transactions which exceeds these limits. The background including all documents/office records /memorandums/clarifications sought pertaining to such transactions and purpose thereof shall also be examined carefully and findings shall be recorded in writing. Further such findings, records and related documents shall be made available to auditors and also to SEBI/stock exchanges/FIU- IND/other relevant Authorities, during audit, inspection or as and when required. These records are required to be preserved for ten years as is required under the PMLA.

9.2 T.SEC ensures a record of the transactions is preserved and maintained in terms of Section 12 of the PMLA and that transactions of a suspicious nature or any other transactions notified under Section 12 of the Act are reported to the Director, FIU-IND. Suspicious transactions shall also be regularly reported to the higher authorities within the T.SEC.

9.3 Further, the compliance cell of T.SEC randomly examines a selection of transactions undertaken by clients to comment on their nature i.e. whether they are in the nature of suspicious transactions or not.

10. Suspicious Transaction Monitoring & Reporting

10.1 T.SEC ensures that appropriate steps are taken to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious transactions. While determining suspicious transactions, T.SEC is guided by the definition of a suspicious transaction contained in PML Rules as amended from time to time.

10.2 A list of circumstances which may be in the nature of suspicious transactions is given below. This list is only illustrative and whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances:

- I. Clients whose identity verification seems difficult or clients that appear not to cooperate
- II. Asset management services for clients where the source of the funds is not clear or not in keeping with clients apparent standing /business activity.
- III. Clients based in high risk jurisdictions.
- IV. Substantial increases in business without apparent cause.
- V. Clients transferring large sums of money to or from overseas locations with instructions for payment in cash.
- VI. Attempted transfer of investment proceeds to apparently unrelated third parties.
- VII. Unusual transactions by CSCs and businesses undertaken by offshore banks/financial services, businesses reported to be in the nature of export-import of small items.

10.3 Any suspicious transaction shall be immediately notified to the Money Laundering Control Officer or any other designated officer within the T.SEC. The notification may be done in the form of a detailed report with specific reference to the clients, transactions and the nature/reason of suspicion. However, it shall be ensured that there is continuity in dealing with the client as normal until told otherwise and the client shall not be told of the report/suspicion. In exceptional circumstances, consent may not be given to continue to operate the account, and

transactions may be suspended, in one or more jurisdictions concerned in the transaction, or other action taken. The Principal Officer/Money Laundering Control Officer and other appropriate compliance, risk management and related staff members shall have timely access to client identification data and CDD information, transaction records and other relevant information.

10.4 It is likely that in some cases transactions are abandoned or aborted by clients on being asked to give some details or to provide documents. It is clarified that intermediaries shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction.

10.5 Clause 5.4(vii) of this Master Circular categorizes clients of high risk countries, including countries where existence and effectiveness of money laundering controls is suspect or which do not or insufficiently apply FATF standards, as 'CSC'. Intermediaries are directed that such clients shall also be subject to appropriate counter measures. These measures may include a further enhanced scrutiny of transactions, enhanced relevant reporting mechanisms or systematic reporting of financial transactions, and applying enhanced due diligence while expanding business relationships with the identified country or persons in that country etc.

11. List of Designated Individuals/Entities

An updated list of individuals and entities which are subject to various sanction measures such as freezing of assets/accounts, denial of financial services etc., as approved by the Security Council Committee established pursuant to various United Nations' Security Council Resolutions (UNSCRs) are accessed at its website at <http://www.un.org/sc/committees/1267/consolist.shtml>. T.SEC ensures that accounts are not opened in the name of anyone whose name appears in said list. T.SEC continuously scans all existing accounts to ensure that no account is held by or linked to any of the entities or individuals included in the list. Full details of accounts bearing resemblance with any of the individuals/entities in the list shall immediately be intimated to SEBI and FIU-IND.

12. Procedure for freezing of funds, financial assets or economic

resources or related services

Section 51A, of the Unlawful Activities (Prevention) Act, 1967 (**UAPA**), relating to the purpose of prevention of, and for coping with terrorist activities was brought into effect through UAPA Amendment Act, 2008. In this regard, the Central Government has issued an Order dated [August 27, 2009](#) detailing the procedure for the implementation of Section 51A of the UAPA. Under the aforementioned Section, the Central Government is empowered to freeze, seize or attach funds and other financial assets or economic resources held by, on behalf of, or at the direction of the individuals or entities listed in the Schedule to the Order, or any other person engaged in or suspected to be engaged in terrorism. The Government is also further empowered to prohibit any individual or entity from making any funds, financial assets or economic resources or related services available for the benefit of the individuals or entities listed in the Schedule to the Order or any other person engaged in or suspected to be engaged in terrorism. The obligations are followed by T.SEC to ensure the effective and expeditious implementation of said Order has been issued vide SEBI Circular ref. no: [ISD/AML/CIR-2/2009](#) dated [October 23, 2009](#), which needs to be complied with scrupulously.

13. Reporting to Financial Intelligence Unit-India

13.1 In terms of the PML Rules, T.SEC is required to report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) at the following address:

Director, FIU-IND,
Financial Intelligence Unit-India,
6th Floor, Hotel Samrat, Chanakyapuri,
New Delhi-110021.
Website: <http://fiuindia.gov.in>

13.2 T.SEC shall carefully go through all the reporting requirements and formats enclosed with this circular. These requirements and formats

are divided into two parts- Manual Formats and Electronic Formats. Details of these formats are given in the documents ([Cash Transaction Report- version 1.0](#) and [Suspicious Transactions Report version 1.0](#)) which are also enclosed with this circular. These documents contain detailed directives on the compilation and manner/procedure of submission of the manual/electronic reports to FIU-IND. The related hardware and technical requirement for preparing reports in manual/electronic format, the related data files and data structures thereof are also detailed in these documents. Intermediaries, which are not in a position to immediately file electronic reports, may file manual reports with FIU-IND as per the formats prescribed. While detailed instructions for filing all types of reports are given in the instructions part of the related formats, intermediaries shall adhere to the following:

- I. The Cash Transaction Report (**CTR**) (wherever applicable) for each month shall be submitted to FIU-IND by 15th of the succeeding month.
- II. The Suspicious Transaction Report (**STR**) shall be submitted within 7 days of arriving at a conclusion that any transaction, whether cash or non-cash, or a series of transactions integrally connected are of suspicious nature. The Principal Officer shall record his reasons for treating any transaction or a series of transactions as suspicious. It shall be ensured that there is no undue delay in arriving at such a conclusion.
- III. The Principal Officer will be responsible for timely submission of CTR and STR to FIU-IND.
- IV. Utmost confidentiality shall be maintained in filing of CTR and STR to FIU-IND. The reports may be transmitted by speed/registered post/fax at the notified address.
- V. No nil reporting needs to be made to FIU-IND in case there are no cash/suspicious transactions to be reported.

13.3 T.SEC does not put any restrictions on operations in the accounts where an STR has been made. T.SEC and their directors, officers and employees (permanent and temporary) shall be prohibited from disclosing (“tipping

off") the fact that a STR or related information is being reported or provided to the FIU-IND. This prohibition on tipping off extends not only to the filing of the STR and/or related information but even before, during and after the submission of an STR. Thus, it shall be ensured that there is no tipping off to the client at any level. T.SEC, irrespective of the amount of transaction and/or the threshold limit envisaged for predicate offences specified in part B of Schedule of PMLA, 2002, shall file STR if they have reasonable grounds to believe that the transactions involve proceeds of crime.

14. Designation of an officer for reporting of suspicious transactions

14.1 To ensure that T.SEC properly discharge their legal obligations to report suspicious transactions to the authorities, the Principal Officer would act as a central reference point in facilitating onward reporting of suspicious transactions and for playing an active role in the identification and assessment of potentially suspicious transactions and shall have access to and be able to report to senior management at the next reporting level or the Board of Directors. Names, designation and addresses (including e-mail addresses) of 'Principal Officer' including any changes therein shall also be intimated to the Office of the Director-FIU. As a matter of principle, it is advisable that the 'Principal Officer' is of a sufficiently senior position and is able to discharge the functions with independence and authority.

15. Employees' Hiring/Employee's Training/ Investor Education

15.1 Hiring of Employees

T.SEC has in place screening procedures in place to ensure high standards when hiring employees. They shall identify the key positions within their own organization structures having regard to the risk of money laundering and terrorist financing and the size of their business and ensure the employees taking up such key positions are suitable and competent to perform their duties.

15.2 Employees' Training

T.SEC has ongoing employee training programme so that the members of the staff are adequately trained in AML and CFT procedures. Training requirements

shall have specific focuses for frontline staff, back office staff, compliance staff, risk management staff and staff dealing with new clients. It is crucial that all those concerned fully understand the rationale behind these directives, obligations and requirements, implement them consistently and are sensitive to the risks of their systems being misused by unscrupulous elements.

15.3 Investors Education

In process of implementation of AML/CFT measures T.SEC to demand certain information from investors which may be of personal nature or has hitherto never been called for. Such information can include documents evidencing source of funds/income tax returns/bank records etc. This can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. T.SEC therefore aims to sensitize their clients about these requirements as the ones emanating from AML and CFT framework.

I HEREBY DECLARE THAT I HAVE READ AND FULLY UNDERSTAND THE POLICIES PROCEDURES AND OPERATIONS DETAILED IN THIS DOCUMENT.I SHALL NOT IN FUTURE STATE THAT I WAS NOT AWARE OF THE SAME.

PLEASE SIGN BELOW STATING YOUR NAME

NAME	SIGNATURE

