

PMLA POLICY

FOR

**SMK SHARES AND STOCK BROKING
PRIVATE LIMITED**

(DP ID – 11400)

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Signature – SD/-

Authorised By – Mr.Dinesh S. Khemka.

Signature – SD/-

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All the queries, suggestions and changes required may be emailed to Mr. Kamal Agarwal – Compliance Officer on agarwalkm14@rediffmail.com

COMPLIANCE OF PREVENTION AND MONEY LAUNDERING ACT (PMLA)

SMK SHARES AND STOCK BROKING PVT LTD had designed this Policy of PMLA and effective AML program to prohibit and actively prevent the money laundering and any activity that facilitates money laundering or the funding of terrorist or criminal activities or flow of illegal money or hiding money to avoid paying taxes. To discourage and identify any Money Laundering or Terrorist financing 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. Maintenance of records of the Nature and Value of Transactions. To protect the interests of investors in securities and to promote the development of and to regulate the Securities Market.

This policy provides a detailed Account of the procedures and obligations to be followed to ensure compliance with issues related to **KNOW YOUR CLIENT (KYC) Norms, ANTI MONEY LAUNDERING (AML), CLIENT DUE DILIGENCE (CDD) and COMBATING FINANCING OF TERRORISM (CFT)**. Policy specifies the need for Additional disclosures to be made by the clients to address concerns of Money Laundering and Suspicious transactions undertaken by clients and reporting to **FINANCE INTELLIGENT UNIT (FIU-IND)**. These policies are applicable to both Branch and Head office Operations and are reviewed from time to time.

Every possible measures are taken for the effective implementation of the Policy. The measures taken are adequate, appropriate and abide by the spirit of such measures and requirements as enshrined in the PMLA to the best of our satisfaction.

Financial Intelligent Unit (FIU) :

The government of India set up Financial Intelligent Unit -India (FIU) on 18th November 2004 as an independent body to report directly to the Economic Intelligence council (EIC) headed by the Finance Minister.

FIU-IND has been established as the central national agency responsible for receiving, processing, analyzing and disseminating information relating to suspect financial transaction. 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.

The Prevention of Money Laundering Act, 2002 (PMLA) :

The Prevention of Money Laundering Act, 2002 (PMLA) has been brought into force with effect from 1st July, 2005. Necessary Notifications / Rules under the said Act have been published in the Gazette of India on 1st July 2005 by the Department of Revenue, Ministry of Finance, and Government of India.

As per PMLA, every banking company, financial institution (which includes Chit Fund company, a co-operative bank, a housing finance institution and a non-banking financial company) and Intermediary (which includes a Depository Participants, Stock-broker, sub-broker, share transfer agent, banker to an issue, trustee to a trust deed, registrar to an issue, merchant banker, underwriter, Portfolio Manager, Investment adviser and any other intermediary associated with securities market and registered under section 12 of the Securities and Exchange Board of India Act, 1992) shall have to maintain a record of all the transactions, the nature and value of which has been prescribed in the Rules notified under the PMLA. For the purpose of PMLA, transactions include:

1. All cash transactions of the value of more than Rs.10 Lakhs or its equivalent in foreign currency.
2. All series of cash transactions integrally connected to each other, which have been valued below Rs.10 Lakhs or its equivalent in foreign currency, such series of transactions within one calendar month.
3. All suspicious transactions whether or not made in cash and including, inter-alia, credits or debits into from any non monetary account such as Demat account, security account maintained by the registered intermediary.

For the purpose of suspicious transactions reporting apart from 'transactions integrally connected', 'transactions remotely connected or related need to be considered.

"Suspicious Transactions" means a transaction whether or not made in cash which to a person acting in good faith –

- (a) Gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime; or
- (b) Appears to be made in circumstances of unusual or unjustified complexity; or
- (c) Appears to have no economic rationale or bonafide purpose.

4. The Anti-Money Laundering Guidelines provides a general background on the subjects of money laundering and terrorist financing in India and provides guidance on the practical implications of the PMLA. The PMLA Guidelines sets out the steps that a registered intermediary and any of its representatives, need to implement to discourage and identify any money laundering or terrorist financing activities.

PRINCIPLE OFFICER

Appointment :

Mr.Dinesh Shyamlal Khemka, has been appointed as a “Principal Officer” under the provisions of the PMLA till such time CDSL identifies an official to act as Principal Officer and also an Alternate Officer, as a substitute when the notified Principal Officer is not available due to any reasons.

Responsibilities :

The Principal Officer and Alternate Officer will ensure that :

A] The Board approved AML Program is implemented effectively.

B] CDSL generated data based on set parameters is downloaded timely to enable us to analyze the data and report transactions of suspicious nature to FIU-IND directly.

C] CDSL responds promptly to any request for information, including KYC related information maintained by us, made by the regulators, FIU-IND and other statutory authorities.

D] CDSL Staff are trained to address issues regarding the application of the PMLA.

E] The Staff selection and training process complies with the PMLA Policy.

F] Any other responsibilities assigned by MD & CEO or any other Official authorized by MD & CEO from time to time.

G] We are regularly update regarding any changes / additions / modifications in PMLA provisions.

INTERNAL POLICIES, PROCEDURES AND CONTROL

CLIENT / CUSTOMER DUE DILIGENCE (CDD):

The Client / Customer Due Diligence (CDD) Measures Comprise the following:

CLIENT INFORMATION & IDENTITY :

Before registering client, obtain antecedent information. Verify independently information submitted by client but not limited to his identity, permanent communication and correspondence addresses, contact details, occupation, promoters or directors in case of the organizations, sources of income, experience in securities market, PAN No., SEBI Registration No etc. obtain as many as information.

Generally Institutional Clients are recognizing at global level. We need to verify client's identity and origin using services of Bloomberg, Reuters, internet services or any other reliable, independent source documents, data or information. After verifying information, registration form along with other supporting documents should be approved by Compliance Officer designated for verification.

BENEFICIAL OWNERSHIP AND CONTROL:

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. After completing registration process, client account should be verified by independent employee to check the actual beneficial ownership and control of the particular account. We need to obtain the details with respect to Shareholders, Promoters from the Institutional client and it has to be verified independently. In this process we should find out who is authorized to operate the client's account and who is ultimately controlling the account. Also verify the sources of funds for funding the transaction. We also have to take care at the time of settlement regarding nature of transaction, movement / source of transaction, etc. Periodically ask for client's financial details to determine the genuineness of transaction.

ONGOING DUE DILIGENCE AND SCRUTINY:

Periodically we need to conduct due diligence and scrutiny of client's transaction and accounts to ensure that transactions are being conducted in knowledge, to find out the risk profile, source of funds, etc. At regular interval, ongoing due diligence and scrutiny need to be conduct 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 Organization's knowledge of the client, its business and risk profile, taking into account, where necessary, the customer's source of funds.

POLICY FOR ACCEPTANCE OF CLIENTS:

Before registering client, we need to identify the following details of the prospective client :

1. Ascertain the category of clients before registration as Client. (i.e. Individual or Corporate, FII, Mutual Fund, PMS or other).
2. Obtain all necessary documents for registration. (Photograph, Photo Identity, Proof of Address, copy of PAN, etc.). Documents should be verified with original and same should be self certified by the client and to be counter signed by the authorized representative in case of the organization.
3. Obtain copy of Bank Statement for ascertaining the mode of payment of transaction.
4. Registration of clients to be made on physical presence of the prospective client.
5. Obtain antecedent details of the prospective client.
6. Ensure that new registration is to be made in clients name only.
7. Ensure that account should not open in fictitious or Benami name.
8. Client's occupation, sources of income.
9. Determine the parameter to categories of client as per risk.
10. Obtain financial statement for at least for last 2 years duly certified by Chartered Accountants.
11. Ensure that all details of KYC form should be complete in all respect Incomplete KYC should not accept by organization.
12. Organization should not register client in case any kind of doubt has been raised by client (i.e. unable to submit required form/proof, any suspicious behavior noticed at the time of registration, etc.)
13. Account should not open where organization cannot apply Customer Due Diligence / KYC policies.
14. The client's account should be scrutinized regularly for determining nature of transaction taken place. In case of any suspicious transaction, the account should be frozen or securities / money should not be delivered to client.

The following safeguards are to be followed while accepting the clients:

- a) The client account should not be opened in a fictitious / Benami name or on an anonymous basis.
- b) Risk perception of the client need to be defined having regard to:
 1. Client's' location (Permanent address, Communications / correspondence addresses, Registered Office Address in case of Institutional client and other addresses if applicable);
 2. Nature of business activity, trading turnover etc., and
 3. Manner of making payment for transactions undertaken.

The parameters of clients into Clients of Special Category (as given below) may be classified as higher risk and higher degree of due diligence and regular update of KYC profile should be performed.

Category - A : Low Risk

Category - B : Medium Risk

Category - C : High Risk, should be classified as

Category "A" clients are those pose low or nil risk. They are good corporate / HNIs who have a respectable social and financial standing. These are the clients who make payment on time and take delivery of shares.

Category "B" clients are those who are intra-day clients or speculative clients. These are the clients who maintain running account with SMK SHARES AND STOCK BROKING PVT LTD.

Category "C" clients are those who have defaulted in the past, have suspicious background, do not have any financial status, etc.

c) Documentation like KYC, DP-Client Agreement and Risk Disclosure Document and other information from different category of client prescribed by SEBI and any other regulatory authority to be collected depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act, 2002, guidelines issued by RBI and SEBI from time to time.

d) Ensure that a client account is not opened where the organization is unable to apply appropriate clients due diligence measures / KYC policies. This may be applicable in cases where it is not possible to ascertain the identity of the client, information provided to the organization is suspected to be non-genuine, perceived non-co-operation of the client in providing full and complete information. Discontinue doing business with such a person and filing a suspicious activity report. We can also evaluate whether there is suspicious trading in determining whether to freeze or close the account and should be cautious to ensure that it does not return securities or money that may be from suspicious trades. However, we can consult the relevant authorities in determining what action should be taken when it suspects suspicious trading.

e) We need to comply with adequate formalities when client is permitted to act on behalf of another person / entity. It should be clearly specified the manner in which the account should be operated, transaction limits for the operation, additional authority required for transactions exceeding a specified quantity / value and other appropriate details. The rights and responsibilities of both the persons should be clearly laid down. Adequate verification of a person's authority to act on behalf the customer should be carried out.

f) Necessary checks and balance to be put in 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.

Acceptance of Clients through Risk-Based Approach:

The clients may be of a higher or lower risk category depending on circumstances such as the customer's background, type of business relationship or transaction etc. We should apply each of the clients due diligence measures on a risk sensitive basis. We should adopt an enhanced customer due diligence process for higher risk categories of customers. Conversely, a simplified customer due diligence process may be adopted for lower risk categories of customers. In line with the risk-based approach, we should obtain type and amount of identification information and documents necessarily dependent on the risk category of a particular customer.

Clients of Special Category (CSC):

CSC Clients include the following:

1. Non-resident clients (NRI);
2. High Net worth clients (HNI)
3. Trust, Charities, NGOs and organizations receiving donations.
4. Companies having close family shareholdings or Beneficial Ownership.
5. Politically Exposed Persons (PEP) of Foreign Origin
6. Current /Former Head of State, Current or Former Senior High profile politicians and connected persons (immediate family, close advisors and companies in which such individuals have interest or significant influence);
7. Companies offering Foreign Exchange offerings;
8. 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;
9. Non-face to face clients;
10. Clients with dubious reputation as per public information available etc.;

The above mentioned list is only illustrative and we should exercise independent judgment to ascertain whether new clients should be classified as CSC or not.

Client Identification Procedure:

To follow the Client Identification procedure we need to follow the following factors:

A] The 'Know Your Client' (KYC) policy should be strictly observed with respect to the client identification procedures which need to be carried out at different states i.e. while establishing the

DP / Broker – Client Relationship, while carrying out transactions for the client or when have any doubts regarding the veracity or the adequacy of previously obtained client identification data.

B] The client should be identified by using reliable sources including documents / information. Obtain adequate information to satisfactorily establish the identity of each new client and the purpose of the intended nature of the relationship.

C] The information should be adequate enough to satisfy competent authorities (regulatory / enforcement authorities) in future that due diligence was observed in compliance with the Guidelines. Each original document should be seen prior to acceptance of a copy and it is verified and duly attested.

D] Failure by prospective client to provide satisfactory evidence of identity should be noted and reported to the higher authority within the organization.

E] SEBI has prescribed the minimum requirements relating to KYC for certain class of the registered intermediaries from time to time. Taking into account the basic principles enshrined in the KYC norms, internal guidelines should be followed in dealing with clients and legal requirements as per the established practices. Also maintain continuous familiarity and follow-up where it notices inconsistencies in the information provided by the client. The principles enshrined in the PML Act, 2002 as well as the SEBI Act, 1992 should be followed, so that Company is aware of the clients on whose behalf it is dealing.

RECORD KEEPING:

For the purpose of the record keeping provision, we should ensure compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PLM act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars. Records to be maintained should be sufficient to permit reconstruction of individual transactions (including the amounts and type of currencies involved, if any) so as to provide, if necessary, evidence for prosecution of criminal behavior. Should 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 financial profile of the suspect's account. To enable this reconstruction, Organization should retain the following information for the accounts of their customers 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.
- D. The origin of the funds;
- F. The form in which the funds were offered or withdrawn, e.g. cash, cheques, etc;
- G. The identity of the person undertaking the transaction;
- H. The destination of the funds;
- I. The form of instruction and authority.

Organization should ensure that all client and transaction records and information are made available on a timely basis to the competent investigating authorities.

MAINTENANCE / RETENTION OF THE RECORDS:

Following are the Document Retention Terms should be observed:

1. All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period of TEN YEARS (10) from the date of cessation of the transaction.
2. Records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence should also be kept for the TEN YEARS (10) from the date of cessation of the transaction
3. Records shall be maintained in hard and soft copies.
4. All necessary records on transactions, both domestic and international, should be maintained at least for the minimum period of TEN YEARS (10) from the date of cessation of the transaction.
5. Records on customer identification (e.g. copies or records of official identification documents like passports, identity cards, driving licenses or similar documents), account files and business correspondence should also be kept for the TEN YEARS (10) from the date of cessation of the transaction.
6. Records shall be maintained in hard and soft copies.
7. In situations where the records relate to on-going investigation or transactions, which have been the subject of a suspicious transaction reporting, they should be retained until it is confirmed that the case has been closed.

MONITORING OF TRANSACTIONS:

1. Regular monitoring of transactions is required for ensuring effectiveness of the Anti Money Laundering procedures.
2. Special attention required to all complex, unusually large transactions / patterns which appear to have no economic purpose.
3. Internal threshold limits to specify for each class of client's accounts and pay special attention to the transaction, which exceeds these limits.
4. Should ensure that the records of transaction is preserved and maintained in terms of the PMLA 2002 and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate authority.
5. Suspicious transactions should also be regularly reported to the higher authorities / head of the department.

Further the Compliance Department should randomly examine select transaction undertaken by clients to comment on their nature i.e. whether they are in the suspicious transactions or not.

SUSPICIOUS TRANSACTION MONITORING & REPORTING:

Whether a particular transaction is suspicious or not will depend upon the background, details of the transactions and other facts and circumstances. Followings are the circumstances, which may be in the nature of suspicious transactions:-

1. Clients whose identify verification seems difficult or clients appears to be not co-operating.
2. Asset management services for clients where the source of the funds is not clear or not in keeping with client's apparent standing / business activity; Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
3. Substantial increases in business without apparent cause.
4. Unusually large cash deposits made by an individual or business;
5. Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
6. Transfer of investment proceeds to apparently unrelated third parties;
7. Unusual transactions by "Client of special category (CSCs)" and businesses undertaken by shall corporations, offshore banks / financial services, business reported to be in the nature of export-import of small items.

Submission of Suspicious Transactions Reports :

Submission of such reports shall be made within the time limit prescribed as follows :-

- Suspicious transaction reports shall be submitted in writing or by fax or electronic mail within three working days from the date of occurrence of the transactions.
- Notifications issued by SEBI require STR to be reported within 7 working days of establishment of suspicion at the level of Principal Officer

Report shall be submitted in the form specified as follows:

Suspicious Transaction Reports in Manual Format consists of following forms :

Form	Information	To be submitted by
Suspicious Transaction Report	Details of suspicious transactions, accounts and persons/entities linked to such transactions.	Principal officer of the Intermediary
Individual Detail Sheet	Identification details of Individual	Reporting branch
Legal Person/ Entity Detail Sheet	Identification details of legal person /entity	Reporting branch
Account Detail Sheet	Details of the account, account holder and related persons.	Reporting branch

Any suspicion transaction needs to be notified immediately to the “Designated Principal Officer”. The notification may be done in the form of a detailed report with specific reference to the client's transactions and the nature or reason of suspicion. However, it should be ensured that there is continuity in dealing with the client as normal until told other wise and the client should not be told of the report or 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.

REVIEW OF POLICY :

Managing Director or Chief Executive Officer or any other authorized official shall be the authority to give directions for review of the policy and to undertake additions, changes, modifications etc., as directed by SEBI / FIU-IND and all the changes shall be deemed to be incorporated in this policy from their effective date.

REPORTING TO FIU:

As per our observations if any, transaction of suspicious nature is identified it must be brought to the notice of the Principal Officer who will submit report to the FIU if required.

INACTIVE CLIENT ACCOUNT :

Client account will be considered inactive if the client does not trade for a period of one year. The shares/credit ledger balance if any will be transferred to the client within one week of identifying the client as inactive. The client has to make written request for reactivation of their account in accordance with “Designated Principal Officer” for Compliance with the provisions of “Prevention of Money Laundering Act, 2002 (PMLA)”

EMPLOYEES HIRING, EMPLOYEES TRAINING AND INVESTOR EDUCATION:

Hiring of Employees:

We shall have adequate screening procedures in place to ensure high standards when hiring employees, having regard to the risk of money laundering and terrorist financing and the size of the business, we ensure that all the employees taking up such key positions are suitable and competent to perform their duties.

The Company HR is instructed to cross check all the references and should take adequate safeguards to establish the authenticity and genuineness of the persons before recruiting. The department should obtain the following documents:

- A. Photographs
- B. Proof of address
- C. Identity proof
- D. Proof of Educational Qualification

Employees' Training:

We have an ongoing employee training program conducted by our Principal Officer and Senior Management, Participation of all the Key Employees in the Seminars conducted by various Regulatory bodies from time to time, so that the members of the staff are adequately trained in AML and CFT procedures.

All the Circulars issued by various Regulatory bodies including that of PMLA, are circulated to all the staff Members and the same are also being discussed in length, in the Training Program'. Training program shall have special emphasis on 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.

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 firm's compliance efforts and how to perform them; the firm's record retention policy; and the disciplinary consequences (including civil and criminal penalties) for non-compliance with the PMLA Act.

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.

INVESTORS EDUCATION:

As the implementation of AML / CFT measures being sensitive subject and requires us to demand and collect certain information from investors which may be of personal in nature or has hitherto never been called for, which information include documents evidencing source of funds / income tax returns / bank records etc. and can sometimes lead to raising of questions by the client with regard to the motive and purpose of collecting such information. There is, therefore, a need for us to sensitize the clients about these requirements, as the ones emanating from AML and CFT framework. We shall circulate the PMLA Circulars and other specific literature/ pamphlets etc. so as to educate the client of the objectives of the AML/CFT program. The same shall also be emphasized on, in the Investor Awareness Programs conducted by us at frequent intervals of time. The importance of the same is also made known to them at the time of opening the Account.

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. Such reports will be confidential, and the employee will suffer no retaliation for making them.

PROGRAM TO TEST AML PROGRAM:

The testing of our AML program will be performed by the senior Management of the company. Evaluation and Reporting: After we have completed the testing, the Internal Auditors will report their findings to The Board of Directors. Each of the resulting recommendations will be address by us.

REPORTING OF STRS:

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.

DISCIPLINARY ACTION :

A violation of standards, procedures or guidelines established pursuant to this policy shall be presented to Compliance Officer for appropriate action and could result in disciplinary action, including expulsion, dismissal, and/or legal prosecution.

BOARD OF DIRECTORS APPROVAL:

We have approved this Anti Money Laundering program as reasonably designed to achieve and monitor for ongoing compliance with the requirements of the PMLA and the implementing regulations under the same.

DESIGNATED PRINCIPAL OFFICER:

In case of any further information or clarification if required in this regard, following are the details of the 'Principal Officer'.

Mr. Naresh Shyamlal Khemka.

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