

# ANTI MONEY LAUNDERING POLICY & PROCEDURE

**Prevention of Money Laundering Act, 2002**

**Updated As On 3<sup>rd</sup> Oct 2016**

## **Introduction:**

According to Prevention of Money Laundering Act, 2002 and Rules framed thereunder, Indiabulls Commodities Limited has developed and implemented the Anti Money Laundering program designated to achieve and monitor the compliance with the requirement. For the purpose of compliance with requirements and provisions of the Act, Indiabulls Commodities Limited is maintaining a record of such transactions the nature and value of which has been prescribed in the Rules under the PMLA. Such transactions include:

- All cash transactions of the value of more than Rs.10 lacs or its equivalent in foreign currency.
- All series of cash transactions integrally connected to each other which have been valued below Rs 10 lakhs or its equivalent in foreign currency where such series of transactions take place within one calendar month.
- 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, Commodities account maintained by the registered intermediary.

It may, however, be clarified that for the purpose of suspicious transactions reporting, apart from ‘transactions integrally connected’, ‘transactions remotely connected or related’ are also considered.

“**Suspicious transactions**” means a transaction whether or not made in cash which to a person acting in good faith –

1. gives rise to a reasonable ground of suspicion that it may involve the proceeds of crime or
2. appears to be made in circumstances of unusual or unjustified complexity or
3. appears to have no economic rationale or bonafide purpose or
4. gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism.

Indiabulls Commodities Limited's existing policies and procedures for its various business functions form the basis for its overall money laundering prevention program. This assures that anti-money laundering compliance reach all aspects of our company's business.

**Money laundering** is the process of transforming the proceeds of crime into ostensibly legitimate money or other assets. If undertaken successfully, money laundering allows criminals to legitimize "dirty" money by mingling it with "clean" money, ultimately providing a legitimate cover for the source of their income. Section 3 of the PMLA, described the offence under Money Laundering. Section 3 reads as under:

“Whosoever directly or indirectly attempts to indulge or knowingly assists or knowingly is a party or is actually involved in any process or activity connected with the proceeds of crime and projecting it as untainted property shall be guilty of offence of money-laundering.”

There are three different steps in money laundering described by three terms as follows:

- **Placement:** Dirty Money, generally in the form of Cash is inserted into a legitimate financial institution.
- **Layering:** Layering involves sending the money through various financial transactions to change its form and make it difficult to follow. Layering may consist of several bank-to-bank transfers, wire transfers between different accounts in different names in different countries, changing the money's currency, and purchasing high-value items to change the form of the money
- **Integration:** At the integration stage, the money re-enters the mainstream economy in legitimate-looking form. This may involve a final bank transfer into the account of a local business in which the launderer is “investing” in exchange for a cut of the profits. At this point, the criminal can use the money without getting caught.

Anti-money laundering procedures set out by Indiabulls Commodities Limited are reviewed regularly and updated as necessary, based on any legal/regulatory or business/operational changes, such as additions or amendments to existing anti-money laundering rules & regulations or business expansion.

## **Appointment of a Designated Director and his Duties**

Indiabulls Commodities Limited has appointed Designated Director in terms of Rule 2 (ba) of the PML Rules to ensure overall compliance with the obligations imposed under chapter IV of the Act and the Rules.

## **Appointment of Principal Officer and his/her Duties**

Indiabulls Commodities Limited has appointed Principal Officer to discourage and identify any money laundering or terrorist financing activities as required under the Prevention of Money Laundering Act. Further Indiabulls Commodities Limited has appointed Money Laundering Control Officer who is responsible for all Anti- Money Laundering related activities in absence of the Principal Officer.

The designated Principal Officer is the central point of contact for communicating with regarding issues related to the company's anti-money laundering program.

The basic functions that are carried out by the Principal Officer to curb money laundering are enumerated as follows:

- a.** Communication of group policies relating to prevention of money laundering and terrorist financing to all management and relevant staff that handle account information, Commodities transactions, money and customer records etc. whether in branches, departments or subsidiaries;
- b.** Define customer acceptance policy and customer due diligence measures, including requirements for proper identification;
- c.** Maintenance of records;
- d.** Compliance with relevant statutory and regulatory requirements;
- e.** Co-operation with the relevant law enforcement authorities, including the timely disclosure of information; and Carrying on internal audits or compliance functions to ensure compliance with policies, procedures, and controls relating to prevention of money laundering and terrorist financing, 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.

Indiabulls Commodities Limited has adopted certain procedures to implement the Anti-Money Laundering provisions as envisaged under the Anti Money Laundering Act, 2002. Such procedures inter alia includes, but not limited to, the following three specific parameters which are related to the overall '**Client Due Diligence Process**' :

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

## **Client Due Diligence**

The CDD measures comprise the following:

- a. Obtaining sufficient information in order to identify persons who beneficially own or control the commodities account. Whenever it is apparent that the commodities acquired or maintained through an account are beneficially owned by a party other than the client, that party are 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.
- b. Verify the client's identity using reliable, independent source documents, data or information;
- c. 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;
- d. 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)

- e. Understand the ownership and control structure of the client;
- f. 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 Indiabulls Commodities Limited's knowledge of the client, its business and risk profile, taking into account, where necessary, the client's source of funds; and
- g. Periodically updation of all documents, data or information of all clients and beneficial owners collected under the CDD process.

### **Policy for acceptance of clients**

Indiabulls Commodities Limited has further developed customer acceptance policies and procedures that aim to identify the types of customers that are likely to pose a higher than the average risk of money laundering or terrorist financing. By establishing such policies and procedures, we will be in a better position to apply customer due diligence on a risk sensitive basis depending on the type of customer business relationship or transaction. In a nutshell, the following safeguards are followed while accepting the clients:

- a. No account is opened in a fictitious / benami name or on an anonymous basis.
- b. 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 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 KYC profile.
- c. Documentation requirement and other information are collected in respect of different classes of clients depending on perceived risk and having regard to the requirement to the Prevention of Money Laundering Act 2002 and Rules framed there under and guidelines issued by SEBI from time to time.
- d. Ensure that an account is not opened where we are 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 intermediary is

- suspected to be non genuine, **perceived non cooperation** of the client in providing full and complete information. It is ensured that we do not continue business with such a person.
- e. The circumstances under which the client is permitted to act on behalf of another person / entity are clearly laid down. It is specified in what manner the account should 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 Indiabulls Commodities Limited, as well as the person on whose behalf the agent is acting is clearly laid down). Adequate verification of a person's authority to act on behalf the customer is also carried out.
  - f. Necessary checks and balance 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.
  - g. Necessary checks shall be conducted before opening a new account so as to ensure that the identity of the customer does not match with any person with banned entities such as individual terrorists or terrorist organizations etc. For conducting such reviews, Indiabulls Commodities Limited shall check the lists provided by SEBI/FMC/Exchanges/internally maintained lists, it shall rely primarily on the United Nations list which is available at <http://www.un.org/sc/committees/1267/consolist.shtml> and <http://www.un.org/sc/committees/1988/list.shtml>. The list of FAFT countries is also updated on an ongoing basis to ensure that clients covered under the high risk countries as per the FATF list are not allowed to open accounts through Indiabulls Commodities Limited . The compliance team shall be responsible to ensure that the said lists are updated on a daily basis through various sources.
  - h. If a customer attempts to open account with forged KYC documents with us, on revelation at any point of time subsequently, the attempt of the customer shall be construed as fiduciary/suspicious. Actions are initiated as per the prescribed guidelines.
  - i. The CDD process shall necessarily be revisited, if required, when there are suspicions of money laundering or financing of terrorism (ML/FT).

## **Risk Based Approach**

It is generally recognized that certain customers 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. At the time of opening of account, customer are classified as High Risk if declared income range per annum is above Rs 25 lakhs, Medium Risk if declared income range per annum is Rs 10 – 25 lakhs and Low Risk if declared income per annum is less than Rs 10 lakhs. Thereafter every month clients are classified based on following parameters,

### **High Risk**

- Collateral  $\geq$  2 Crore
- Average daily turnover  $\geq$  5 Crore
- Client of special category

### **Medium Risk**

- 50 lacs  $\leq$  Collateral  $<$  2 Crore
- 1 crore  $\leq$  Average daily turnover  $<$  5 Crore

### **Low Risk**

- Collateral  $<$  50 lacs
- Average daily turnover  $<$  1 Crore

Indiabulls Commodities Limited follows stringent customer due diligence measures on all risk categories of clients. Further, carry out risk assessment to identify, assess and take effective measures to mitigate its money laundering and terrorist financing risk with respect to its clients, countries and geographical areas, nature and volume of transaction, payment method used by clients, etc. The risk assessment also take into account any country specific information that is circulated by the Government of India and SEBI from time to time, as well as, the updated list of individual and entities who are subjected to sanction measures as required under the various United Nations' Security Council Resolutions.

Indiabulls Commodities Limited do not accept cash from the clients. Receipts from clients to be accepted in the form of crossed cheques in favour of Indiabulls Commodities Limited and drawn on the bank account of the particular client as updated in our records, or through demand drafts made from the client's own funds or by means of fund transfers from the account of the particular client as updated in our records. Similarly payments due to a client to be made by means of

crossed cheques in favour of the respective client. Third party cheques should not be accepted on behalf of any client.

Further, low risk provisions shall not apply when there are suspicions of ML/FT or when other factors give rise to a belief that the customer does not in fact pose a low risk.

### **Client of special category (CSC):**

Clients of Special Category (CSC) are classified as 'High Risk' clients. Such clients include the following:

- Non resident clients
- High Net worth clients
- Trust, Charities, NGOs and organizations receiving donations,
- Companies having close family shareholdings or beneficial ownership,
- Persons who is entrusted with prominent public functions in a foreign country to be terms as Politically Exposed Persons (PEP), such as 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).
- Companies offering foreign exchange offerings,
- 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,
- Non face to face clients,
- Clients with dubious reputation as per public information available etc.

We do recognize that the above mentioned list is only illustrative and we shall be exercising independent judgment to ascertain whether new clients should be classified as CSC or not.

## **Procedure for Client Identification**

The 'Know your Client' (KYC) procedures clearly spells out the client identification process that is carried out at different stages. Indiabulls Commodities Limited has framed its own internal guidelines and legal requirements as per the established practices detailing the list of documents required during account opening process. The underlying principle is to follow the principles enshrined in the PML Act, 2002 as well as the SEBI Act, 1992.

- a. Indiabulls Commodities Limited proactively put in place 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 include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS. Further, the enhanced CDD measures shall also be applicable where the beneficial owner of a client is a PEP.
- b. Senior management approval for establishing business relationships with PEPs is obtained. Where a client has been accepted and the client or beneficial owner is subsequently found to be, or subsequently becomes a PEP, Indiabulls Commodities Ltd shall obtain senior management approval to continue the business relationship.
- c. Indiabulls Commodities Limited has also taken reasonable measures to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP”.
- d. Verify customer’s identity using reliable, independent source documents, data or information;
- e. Each original document is seen prior to acceptance of a copy.

- f. Failure by prospective client to provide satisfactory evidence of identity shall be noted and reported to the higher authority within Indiabulls Commodities Limited.
- g. Conduct in-person verification (IPV) by personally visiting the client's premises and confirming various details. All supporting documents to be verified with the originals by the Relationship Manager (RM). RM to identify client through discreet enquiry about the client's background, financial status, and location etc. Do not open accounts of clients who are not approachable or who do not produce the necessary documents/clarification in support of the details provided by the client. No account should be opened with out a valid PAN number, which is verified with IT Dept website.

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

Indiabulls Commodities Limited may rely on a third party for the purpose of identification and verification of the identity of a client and 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 provided such third party 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. 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.

### **Monitoring of Transactions**

Regular monitoring of transactions is vital for ensuring effectiveness of the Anti Money Laundering procedures. Following internal processes to be followed while monitoring the transactions,

- a) Pay special attention to all complex, unusually large transactions / patterns which appear to have no economic purpose.
- b) Monitor trading transactions of clients maintaining total collateral (cash+stock) of more than Rs. 1 crore and/or average daily turnover of more than 5 crore on fortnight basis and/or any day turnover of 10 crore during a fortnight.

- c) Monitor transactions of clients with Fund In/Out  $\geq$  50 lacs through single entry in a day
- d) **All alerts generated from system as per the internal policy, to be duly investigated to ensure genuineness in terms of capacity of client to execute such alerts transactions. In broader sense to reassure on the following aspects:**
  - i. Verify client's KYC document along with PAN re-verification.
  - ii. Verify client's Availability Status (i.e. client's availability at the given address through delivery status of various communications / deliveries of documents).
  - iii. Verify genuineness of transactions & Call confirmation records.
  - iv. Verify bank transactions to check whether funds received from / paid in linked account only.
  - v. Sudden activity in dormant accounts which may raise doubt over the genuineness of transactions.
  - vi. Unusual activity compared to past transactions.
  - vii. Check if the payment pattern of client is inconsistent to his/her normal behavior.
- e) Records of transactions are preserved and maintained in terms of section 12 of the PMLA 2002 and that transaction of suspicious nature or any other transaction notified under section 12 of the act are reported to the appropriate law authority. Suspicious transactions are also need to be reported to the Director, FIU-IND.
- f) Compliance cell of Indiabulls Commodities Limited randomly examine 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.

### **Suspicious Transaction Reporting:**

The Suspicious Transaction Report (STR) shall be furnished 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 once a suspicious transaction report is received from a

branch or any other office. Such report shall be made available to the competent authorities on request.

Indiabulls Commodities Limited shall not put any restriction on operations in the accounts where an STR has been made. Indiabulls Commodities Limited 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. In exceptional circumstances, consent may not be given to continue to operate the account and transactions may be suspended.

Indiabulls Commodities Limited, 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.

Suspicious activity can occur either at the outset of the client relationship or long after the relationship has been initiated. Transactions are viewed in the context of other account activity and a determination of whether the transaction is actually suspicious would necessarily depend on the customer and the particular transaction, compared with the customer's normal business activity. Unusual or questionable transactions may include transactions that appear to lack a reasonable economic basis or recognizable strategy based upon what the firm knows about the particular customer. Examples of activity that may be indicative of unusual or potentially suspicious activity are provided to all appropriate firm personnel through standard distribution channels and are being incorporated into the firm's anti-money laundering policies and procedures, as well as its anti-money laundering training materials.

Any transactions that are related to unlawful activities such as fraud and market manipulation is equivalent to a suspicion that they are related to money laundering, and must be strictly reported.

Principal Officer ensures to take appropriate steps to enable suspicious transactions to be recognized and have appropriate procedures for reporting suspicious transactions. A list of

circumstances which are 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:

- a. Clients whose identity verification seems difficult or clients appears not to cooperate;
- b. Asset management services for clients where the source of the funds is not clear or not keeping up with clients apparent standing /business activity;
- c. Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
- d. Substantial increases in business without apparent cause;
- e. Unusually large transactions made by an individual or business;
- f. Unusual transaction by CSCs

In case transactions are abandoned or aborted by clients on being asked to give some details or to provide documents then Indiabulls Commodities Limited shall report all such attempted transactions in STRs, even if not completed by clients, irrespective of the amount of the transaction

Record and report STR of all suspicious transactions post assessment as per the prescribed format.

## **Reporting to Financial Intelligence Unit-India**

In terms of the PML Rules, Indiabulls Commodities Limited shall report information relating to cash and suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND) in respect of transactions referred to in Rule 3 at the following address:

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

Utmost confidentiality shall be maintained in filing of CTR and STR to FIU-IND.

## **Procedure for freezing of funds, financial assets or economic resources or related services.**

Indiabulls Commodities Limited has put in place the system to ensure the implementation of the order issued by the Central Government/SEBI/FIU-India.

## **Employees' Hiring/Employee's Training/ Investor Education**

### **Hiring Policy**

Indiabulls Commodities Limited is having adequate screening procedures in place to ensure high standards when hiring employees. The key position is identified having regard to the risk of Money Laundering and Terrorist Financing. Indiabulls Commodities Limited further ensures that the employees taking up such key positions are suitable and competent to perform their duties.

### **Employees' Training**

Indiabulls Commodities Limited will have adequate procedure to provide ongoing employee training program so that the members of the staff are adequately trained in AML and CFT procedures. While sales people having direct contact with clients are in the best position to identify some forms of suspicious activity, other business units or areas also benefits from training, including treasury, operations, margin, credit, corporate security, audit and legal and compliance.

### **Investors Education**

Implementation of KYC procedures requires Indiabulls Commodities Limited to demand certain information from customer which may be of personal nature or which has hitherto never been called for. This sometimes leads to a lot of questioning by the customer as to the motive and

purpose of collecting such information. The Relationship Managers of Indiabulls Commodities Limited shall be trained to explain to the customers the regulatory requirements and benefits of adhering to the KYC guidelines and seek co-operation of the customer.

## **Record Keeping**

Principal Officer ensures that we are in compliance with the record keeping requirements contained in the SEBI Act, 1992, Rules and Regulations made there-under, PML Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars. It is ensured to maintain and preserve the records evidencing the identity of its clients and beneficial owners as well as account files and business correspondence for a period of five years after the business relationship between a client and intermediary has ended or the account has been closed, whichever is later.

The Principal Officer ensures that all customer transaction records and information are available on a timely basis to the competent investigating authorities. Further ensured to maintain and preserve the record of information related to transactions, whether attempted or executed, which are reported to the Director, FIU-IND, as required under Rules 7 & 8 of PML Rules, for a period of five years from the date of transaction between the client and the intermediary.

## **Retention of Records**

Following documents shall be retained:

- a. All necessary records on transactions, both domestic and international, shall be maintained at least 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.
- b. 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.