

Know Your Customer, Anti-Money Laundering & Surveillance Policy

PMLA Policy of SPHPL has been revised as per SEBI's latest master circular No. SEBI/HO/MIRSD/DOS3/CIR/2018/104 Dated July 04, 2018. Date of revision – September 18, 2020

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PREFACE

This Know Your Customer (KYC) and Anti-Money Laundering (AML) Policy (the Policy) has been prepared in accordance with the Prevention of Money Laundering Act, 2002 (PMLA Act). This Policy also takes into account the provisions of the PMLA Act and other Rules laid down by SEBI, FMC and FIU.

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 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 5 lakhs or its equivalent in foreign currency.
2. All series of cash transactions integrally connected to each other which have been valued below Rs 5 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 –

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.

This Policy only supplements the existing SEBI / FIU guidelines relating to KYC/AML and any subsequent guidelines from the date of the Policy on KYC/AML will be implemented immediately, with subsequent ratification by the Board. Extant regulations will at any point in time override this Policy.

1. KYC/AML philosophy of SPHPL

- 1.1 The KYC / AML philosophy of SPHPL is to prevent SPHPL from being used, intentionally or unintentionally, by criminal elements for money laundering or terrorist financing activities. The objective of this policy is also to enable SPHPL to know / understand its customers and their financial dealings better which in turn will help SPHPL to manage its risks prudently.
- 1.2 It is important that SPHPL's management views "money-laundering prevention" and "knowing your customer" as part of the risk management strategies and not simply as stand-alone requirements that are being imposed by legislation/regulators'.

Hence the objective of the policy is to –

1. To have a proper Customer Due Diligence (CDD) process before registering clients.
2. To monitor/maintain records of all cash transactions of the value of more than Rs.10 lacs.
3. To maintain records of all series of integrally connected cash transactions within one calendar month.
4. To monitor and report suspicious transactions.
5. To discourage and identify money laundering or terrorist financing activities.
6. To take adequate and appropriate measures to follow the spirit of the PMLA.

2. What is Money Laundering?

Money laundering is the criminal practice of putting ill-gotten gains or dirty money through a series of transactions, so that the funds are cleaned to look like proceeds from legal activities. It is driven by criminal activities and conceals the true source, ownership, or use of funds.

In simple terms money laundering is most often described as the “turning of dirty or black money into clean or white money”. 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 Act defines money laundering in following words:

“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”.

3. Why “Know Your Customer”?

- 3.1 One of the best methods of preventing and deterring money laundering is a sound knowledge of a customer’s business and pattern of financial transactions. The adoption of procedures by which financial institutions “know their customer” is not only a principle of good business but is also an essential tool to avoid involvement in money laundering.
- 3.2 SPHPL shall adopt appropriate KYC procedures and internal controls measures to:
 - (i) Determine and document the true identity of the customers who establish relationships, open accounts or conduct significant business transactions and obtain basic background information on customers;
 - (ii) Assess the money laundering risk posed by customers’ expected use of SPHPL’s products and services;
 - (iii) Protect SPHPL from the risks of doing business with any individual or entity whose identity cannot be determined or who refuses to provide information, or who have provided information that contains significant inconsistencies which cannot be resolved after due investigation.

4. Customer Acceptance Policy

- 4.1 No account shall be opened in anonymous or fictitious / benami name(s). PAN shall be mandatory for each account. Each client shall have one trading account only.
- 4.2 The parameters of risk perception in terms of the nature of business activity, location of customer and his clients, mode of payments, volume of turnover, social and financial status etc shall be captured at the account opening stage to enable categorization of customers into low, medium and high risk. SPHPL has indicative categories of customers which would fall into low, medium and high risk categories (refer **Annexure 1**). The list shall be updated as and when required or feel necessary.

For the purpose of risk categorization, individuals/entities whose identities and sources of wealth can be easily identified and transactions in whose accounts by and large conform to the known profile, shall be categorized as low risk. Illustrative examples of low risk customers are as follows:

- salaried employees whose salary structures are well defined;
- Government Departments and Government owned companies;
- regulators and statutory bodies; etc.

Customers that are likely to pose a higher than average risk to SPHPL shall be categorized as medium or high risk depending on customer's background, nature and location of activity, country of origin, sources of funds and his client profile etc. SPHPL shall apply Customer Due Diligence measures based on the risk assessment, thereby requiring intensive 'due diligence' for higher risk customers.

- 4.3 While the profile of the customer is captured in the account opening form, Account Opening Team shall open the Client Account after verifying information collected registration form along with other supporting documents. All new accounts shall be reviewed against negative lists issued by SEBI/FMC, Exchanges and other lists such as OFAC, UN sanctions lists etc.

- In person verification is to be carried out as per the requirements of the regulators. Further check would be done for actual beneficial ownership and control of the particular account. We need to obtain the details with respect to Shareholders, promoters from the non individual clients and wherever possible it has to be verified independently. Also verify the sources of funds for funding the transaction. We shall also take care at the time of settlement regarding nature of transaction, movement/source of transaction, etc. For this purpose, "**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.

a) 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

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

- In case, under the extant regulations, a KYC carried out by a third party is allowed to be accepted as a valid KYC for onboarding a client the same shall be accepted provided due process in relation to the same under the regulations are followed.

For onboarding of NRI / FII / FPI clients, in case there is any connection with any country which has been observed by the FATF to be non compliant with its requirements, the account shall be rejected. Which shall mean the following –

- o Person has provided a residential / correspondence address of such country
 - o Directions for the operating of the account are received from the said country
 - o The POA holder of the account is connected in the above manner with that country
- **Ongoing due diligence and scrutiny** We shall conduct periodic 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 needs to be conducted 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.
 - For all clients applying for trading rights in the futures and options segments, further details as regards their financial status such as proof of income and source of funds would be required.
- 4.4 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 known criminal background or with banned entities such as individual terrorists or terrorist organizations etc. For conducting such reviews, while SPHPL shall check the lists provided by SEBI/FMC/Exchanges/internally maintained lists.

The list of FATF 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 SPHPL.

Process wherein the name of the client (new or existing) matches with the negative list –

| Type of client | What matches with negative list | What is to be done |
|----------------|---------------------------------|--|
| New | PAN | Reject account |
| | Name | Check the address or any other detail in the SEBI/FMC order to ensure that client is different from the entity in negative list. |
| Existing | PAN | Proceed for closure |
| | Name / Address / Other details | <ul style="list-style-type: none"> • Escalate to compliance officer • Review past transactions & take appropriate step. • If not – ask the client to ensure declaration he is not the same person |

5. **Customer Identification Procedure**

KYC policy of SPHPL clearly spell out the client identification procedure needs to be carried out at different stages i.e. while establishing relationship with client, while carrying out transactions of the client in case doubts arise regarding the veracity or the adequacy of previously obtained client identification data.

We ensure compliance with the following requirements while putting in place a Client Identification Procedure (**CIP**):

- 5.1 There is an appropriate risk management systems in place to determine whether client or potential client or the beneficial owner of such client is a politically exposed person. Such procedures also include seeking relevant information from the client, referring to publicly available information or accessing the commercial electronic databases of PEPS.
- 5.2 We 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, approval from senior management is obtained in such cases.
- 5.3 Reasonable measures are initiated to verify the sources of funds as well as the wealth of clients and beneficial owners identified as PEP.
- 5.4 Such clients are identified by using reliable sources including documents / information. Adequate information are obtained to satisfy and establish the identity of each new client and the purpose of the intended nature of the relationship.
- 5.5 Adequate information is obtained to satisfy the competent authorities (regulatory / enforcement authorities) in future that due diligence was observed in compliance with the directives. Each original documents are seen prior to acceptance of a copy.
- 5.6 Failure by prospective client to provide satisfactory evidence of identity is noted and reported to the higher authority.
- 5.7 SPHPL shall have in place a comprehensive Customer Identification Procedure which details the various documents that SPHPL can take as Identity, Address proof for various types of customers (refer **Annexure2**)

Further, ongoing due diligence is conducted where inconsistencies in the information is noticed ,with objective to follow the requirements enshrined in the PMLA, SEBI Act and Regulations, directives and circulars issued in this regard so that we may be aware of the clients on whose behalf it is dealt.

We have formulated and implemented 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.

SPHPL may ask for periodical updation of customer identification and other data after the account is opened.

6. Monitoring of Transactions

Ongoing monitoring is an essential element of effective KYC procedures. SPHPL can effectively control and reduce their risk only if they have an understanding of the normal and reasonable activity of the customer so that they have the means of identifying transactions that fall outside the regular pattern of activity.

SPHPL shall have in place a comprehensive transaction monitoring process from a KYC/AML perspective. SPHPL shall put in place strong transaction alerts which will provide proactive signals on suspicious transactions and possible money laundering. An indicative list of such alerts is provided with this policy. (Annexure 3) SPHPL shall endeavour to update the list based on current understanding of the market scenario and trading patterns followed by clients. In addition to the alerts from internal sources, the Surveillance team shall also monitor the alerts provided by the exchanges per their circular NSE/INVG/22908 dated March 7, 2013. Details relating to the compliance with respect to the said circular are elaborated in **Annexure 3**.

SPHPL shall put in place a system of periodical review of risk categorization of accounts. Such review of risk categorization of customers shall be carried out.

In case of any account wherein alerts are observed on a regular basis, the risk categorization would be increased based on the consensus of the AML monitoring team and the compliance officer.

Special attention is required for all complex, unusually large transactions / patterns which appear to have no economic purpose. The background including all documents, office records and clarifications pertaining to such transactions and their purpose will be-examined carefully and findings will be recorded.

It would be ensured that record of transaction is preserved and maintained in terms of section 12 of the PMLA 2002 and / or rules made there under and that transaction of suspicious nature or any other transaction notified under section 12 of the act is reported to the appropriate law authority.

Further the accounts or financial assets shall be frozen for any particular client in case so required by any regulatory authority upon receiving a notice for the same.

7. Risk Management

- 7.1 The overall responsibility/implementation and adherence of this KYC/AML policy shall lie with SPHPL.
- 7.2 The Concurrent / Internal Auditors shall specifically check and verify the application of KYC/AML procedures and comment on the lapses observed in this regard. The reports and compliance in this regard shall also put up before the Audit & Compliance Committee of the Board.

8. Combating Financing of Terrorism (CFT)

SPHPL shall have a heightened awareness in the system to check for transactions which give rise to a reasonable ground of suspicion that these may involve financing of the activities relating to terrorism.

9. Maintenance of records of transactions / Information to be preserved / Maintenance and preservation of records / Cash and Suspicious transactions reporting to Financial Intelligence Unit-India (FIU-IND)

- 9.1 Government of India, Ministry of Finance, Department of Revenue, vide its notification dated July 1, 2005 in the Gazette of India, has notified the Rules under the PMLA Act. In terms of the Rules (refer **Annexure 4**), the provisions of PMLA Act, 2002 came into effect from July 1, 2005. Section 12 of the PMLA, 2002 casts certain obligations on financial institutions in regard to preservation and reporting of customer account information.
- 9.2 Maintenance of records of transactions

SPHPL shall have a system of maintaining proper record of all transactions including records of all transactions prescribed under Rule 3 of the Rules, as mentioned below:

- a) All cash transactions of the value of more than Rupees Ten Lakh or its equivalent in foreign currency.
 - b) 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;
 - c) all transactions involving receipts by non-profit organizations of value more than rupees ten lakh, or its equivalent in foreign currency
- 9.2(A) Further , in terms of Regulations 54 and 66 of the SEBI (Depositories and Participants) Regulation,2018 (herein referred to as D&P Regulation,2018) notified on **October 03 , 2018**,
Depositories and Depository participant of eight years.
REF SEBI/HO/MRD2/DDAP/CIR/P/2020/153

9.3 Information to be preserved

SPHPL shall maintain the following information in respect of transactions referred to in Rule 3 of the Rules including all necessary information specified by the regulator to permit reconstruction of individual transactions in respect of transactions referred to in Rule 3 of the Rules:

- (a) the nature of the transactions;
- (b) the amount of the transaction and the currency in which it was denominated;
- (c) the date on which the transaction was conducted; and
- (d) the parties to the transaction.

9.4 Maintenance and Preservation of records

- 9.4.1) SPHPL shall maintain the records of all transactions SPHPL shall take appropriate steps to evolve a system for proper maintenance and preservation of account information in a manner that allows data to be retrieved easily and quickly whenever required or when requested by the competent authorities. Further, SPHPL shall maintain for such number of years as would be required under the PMLA 2002 and rules made thereunder from the date of transaction between SPHPL and the client, all necessary records of transactions, both domestic or international, which will permit reconstruction of individual transactions (including the amounts and types of currency involved if any) so as to provide, if necessary, evidence for prosecution of persons involved in criminal activity
- 9.4.2) SPHPL shall ensure that records pertaining to the identification of the customer and his address (e.g. copies of documents like passports, identity cards, driving licenses, PAN, card, utility bills etc.) obtained while opening the account and during the course of business relationship, are properly preserved for such number of years as would be required under the PMLA 20002 and rules made thereunder after the business relationship is ended. The identification records and transaction data should be made available to the competent authorities upon request.

9.5 Reporting to Financial Intelligence Unit-India

- 9.5.1 In terms of the Rules, SPHPL 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
Website: - <http://fiuindia.gov.in>

9.5.2 **Suspicious Transaction Reports (STR)**

- 9.5.2.1) The Suspicious Transaction Report (STR) shall be furnished within reasonable time 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.
- 9.5.2.2) While determining suspicious transactions, SPHPL shall be guided by definition of suspicious transaction contained in the Rules as amended from time to time.
- 9.5.2.3) An indicative list of suspicious activities contained is provided along with this policy.
- 9.5.2.4) While ensuring that there is no tipping off to the customer at any level, SPHPL may put restrictions on operations in the accounts where an STR has been made.

10. **Principal Officer**

Presently the compliance officer shall be appointed as the principal officer of the Company.

11. **Designated Director**

The whole time director in charge of Operations shall be appointed as the designated officer of the Company and details thereof be intimated to FIU consequent to SEBI Circular CIR/MIRSD/112014 dated March 12, 2014. Presently Sh. Vivek Sheel Aggarwal is Designated Director of SPHPL.

12. **Customer Education / Employee's Training / Employee's Hiring**

12.1 **Customer Education**

Implementation of KYC procedures requires SPHPL 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 staff and business associates of SPHPL 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.

12.2 **Employees' Training**

SPHPL shall have an ongoing employee training programme so that the staff of the member are adequately trained in KYC/AML procedures and fully understand the rationale behind the KYC/AML policies and implement them consistently.

12.3 **Hiring of Employees**

KYC norms / AML standards / CFT measures have been prescribed to ensure that criminals are not allowed to misuse SPHPL infrastructure. It should therefore, be necessary that adequate

screening mechanism is put in place by SPHPL as an integral part of their recruitment / hiring process of personnel.

Record generation, maintenance and retention –

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, PML Act, 2002 as well as other relevant legislation, Rules, Regulations, Exchange Bye-laws and Circulars.

Records to be maintained 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.

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 a financial profile of the suspect 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:
 - the origin of the funds;
 - the form in which the funds were offered or withdrawn, e.g. cash, cheques, etc.;
 - the identity of the person undertaking the transaction;
 - the destination of the funds;
 - 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.

Retention of Records:

- a. All necessary records on transactions, both domestic and international, should be maintained at least for such number of years as would be required under the PMLA 2002 and rules made thereunder from the date of cessation of the transaction.
- b. Records on customer identification (e.g. copies or records of official identification documents like PAN card, passports, identity cards, driving licenses or Voter Identity Card or similar documents), account files and business correspondence should also be kept for such number of years as would be required under the PMLA 20002 and rules made thereunder from the date of cessation of the transaction.
- c. Records of the all trading details of the client needs to be stored for such number of years as would be required under the PMLA 20002 and rules made thereunder
- d. Records shall be maintained in hard & soft copies. The following document retention terms should be observed:

In situations where the records relate to on-going investigations 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.

ANNEXURE 1

RISK CATEGORISATION

| Type | Recommended Risk Categorisation |
|--|---|
| Salaried, Student, Farmer, Professional, Business | Low risk |
| Senior citizens | Medium / High Risk |
| House-wife | Medium / High Risk |
| Self Employed- Professionals/ Businessmen | Low risk (except professionals associated with the film industry who will be categorized as "Medium" risk). |
| Non Resident Individuals | High Risk |
| Politically Exposed Persons resident outside India | High Risk |

RISK CATEGORISATION FOR ACCOUNTS

| Type | Recommended | Risk Perception |
|--|--------------------|---|
| Private Ltd/Public Ltd Companies | Medium / High risk | Depending on the clarity of the shareholding structure and the nature of operations, such companies would be Classified. Such classifications shall be decided post the review of SPHPL |
| Local Authorities or Public Bodies | Low Risk | They are constituted under Special Acts. Operations are governed by such Acts / Rules |
| Public Sector Undertakings, Government Departments/ Undertakings, Statutory Corporations | Low Risk | These types of entities are governed by specific Acts, Notifications etc framed by the Government of India or the State Govt. and are controlled and run by the Govt. |
| Mutual Funds/Scheduled Commercial Banks/Insurance Companies/Financial Institutions | Low Risk | These entities are strictly regulated by their respective Regulators. |
| Partnership Firm | Medium / High risk | Depending on the clarity of the shareholding structure and the nature of operations, such entities would be Classified. Such classifications shall be decided post the review of SPHPL |
| Trusts – Public Charitable Trust | Medium / High Risk | Depending on the clarity of the beneficial ownership and the nature of operations, such entities would be classified. Such classifications shall be decided post the review of the compliance officer |
| Hindu Undivided Family (HUF) | Low/ Medium Risk | These are unregistered bodies and the pattern of entries in the account may not be correlated with known sources of income/ expenditure. |

| | | |
|--|-----------------------|---|
| Trusts – Private Trust Co-operative Banks | Medium Risk/High Risk | These may be unregistered trusts and the pattern of entries in the account may not be correlated with known sources of income/ expenditure. |
| Co-operative Banks | Medium Risk/High Risk | N.A. |
| High Volume Clients | High Risk | Having trade value more than Rs.25 Lacs most of the day |
| High Net Worth clients | High Risk | Annual Income of Rs.25 Lacs or more and/or net worth of Rs.1 Cr. or more |
| Clients defaulter in payments/Cheque bounced | High Risk | Client's whose cheque get bounces due to insufficient funds twice during last one year |
| F & O Clients | High Risk | All clients participating in F&O segments |
| Dubious personality | High Risk | Clients with dubious reputation as per public information available. |
| Advocate clients | High Risk | Clients advocate with profession |

ANNEXURE 2

CUSTOMER IDENTIFICATION PROCEDURE FOR ACCOUNT OPENING

Customer identification means identifying the customer and verifying his/ her identity by using reliable, source documents, data or information. Based on risk perception, type / entity of customer, segment of customer following features shall be verified with supporting documents obtained from the customers –

INSTRUCTIONS/CHECK LIST FOR FILLING KYC FORM

A. IMPORTANT POINTS:

- 1) Self attested copy of PAN card is mandatory for all clients, including Promoters/Partners/Karta/Trustees and whole time directors and persons authorized to deal in securities on behalf of company/firm/others.
- 2) Copies of all the documents submitted by the applicant should be self-attested and accompanied by originals for verification. In case the original of any document is not produced for verification, then the copies should be properly attested by entities authorized for attesting the documents, as per the guidelines.
- 3) If any proof of identity or address is in a foreign language, then translation into English is required.
- 4) Name & address of the applicant mentioned on the KYC form, should match with the documentary proof submitted.
- 5) If correspondence & permanent address are different, then proofs for both have to be submitted.
- 6) Sole proprietor must make the application in his individual name & capacity.
- 7) For non-residents and foreign nationals, (allowed to trade subject to RBI and FEMA guidelines), copy of passport/PIO Card/OCI Card and overseas address proof is mandatory.
- 8) For foreign entities, CIN is optional; and in the absence of DIN no. for the directors, their passport copy should be given.
- 9) In case of Merchant Navy NRI's, Mariner's declaration or certified copy of CDC (Continuous Discharge Certificate) is to be submitted.
- 10) For opening an account with Depository participant or Mutual Fund, for a minor, photocopy of the School Leaving Certificate/Mark sheet issued by Higher Secondary Board/Passport of Minor/Birth Certificate must be provided.
- 11) Politically Exposed Persons (PEP) are defined as 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. Name of the individual is checked on "name scan" website for PEP.

B. PROOF OF IDENTITY (POI):

List of documents admissible as Proof of Identity:

1. Unique Identification Number (UID) (Aadhar)/ Passport/ Voter ID card/ Driving license.
2. PAN card with photograph.

3. Identity card/ document with applicant's Photo, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities, Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members; and Credit cards/Debit cards issued by Banks.

C. PROOF OF ADDRESS (POA):

List of documents admissible as Proof of Address: (Documents having an expiry date should be valid on the date of submission.)

1. Passport/ Voters Identity Card/ Ration Card/ Registered Lease or Sale Agreement of Residence/ Driving License/ Flat Maintenance bill/ Insurance Copy.
2. Utility bills like Telephone Bill (only land line), Electricity bill or Gas bill - Not more than 3 months old.
3. Bank Account Statement/Passbook -- Not more than 3 months old.
4. Self-declaration by High Court and Supreme Court judges, giving the new address in respect of their own accounts.
5. Proof of address issued by any of the following: Bank Managers of Scheduled Commercial Banks/Scheduled Co-Operative Bank/Multinational Foreign Banks/Gazetted Officer/Notary public/Elected representatives to the Legislative Assembly/Parliament/Documents issued by any Govt. or Statutory Authority.
6. Identity card/document with address, issued by any of the following: Central/State Government and its Departments, Statutory/Regulatory Authorities, Public Sector Undertakings, Scheduled Commercial Banks, Public Financial Institutions, Colleges affiliated to Universities and Professional Bodies such as ICAI, ICWAI, ICSI, Bar Council etc., to their Members.
7. For FII/sub account, Power of Attorney given by FII/sub-account to the Custodians (which are duly notarized and/or apostilled or consularized) that gives the registered address should be taken.
8. The proof of address in the name of the spouse may be accepted.
9. In case of transactions undertaken on behalf of Central Government and/or State Government and by officials appointed by Courts e.g. Official liquidator, Court receiver etc

D. LIST OF PEOPLE AUTHORISED TO ATTEST THE DOCUMENTS:

1. Notary Public, Gazetted Officer, Manager of a Scheduled Commercial/ Co-operative Bank or Multinational Foreign Banks (Name, Designation & Seal should be affixed on the copy).
2. In case of NRIs, authorized officials of overseas branches of Scheduled Commercial Banks registered in India, Notary Public, Court Magistrate, Judge, Indian Embassy /Consulate General in the country where the client resides are permitted to attest the documents.

E. In case of Non-Individuals, additional documents to be obtained from non-individuals, over & above the POI & POA, as mentioned below:

| Types of entity | Documentary requirements |
|---|---|
| <p>Clients other than Individual and Trust (Corporate)</p> | <p>For clients other than individuals or trusts: Where the client is a person other than an individual or trust, viz., company, partnership or unincorporated association/body of individuals, the intermediary shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the following information: 1CIR/ MIRSD/2/ 2013 dated January 24, 2013</p> <p>a) The identity of the natural person, who, whether acting alone or together, or through one or more juridical person, exercises control through ownership of who ultimately has a controlling ownership interest.</p> <p>Explanation: Controlling ownership interest means ownership of/entitlement to:</p> <p>i. more than 25% of shares or capital or profits of the juridical person, where the juridical person is a company;</p> <p>ii. more than 15% of the capital or profits of the juridical person, where the juridical person is a partnership; or</p> <p>iii. more than 15% of the property or capital or profits of the juridical person, where the juridical person is an unincorporated association or body of individuals.</p> <p>b) In cases where there exists doubt under clause (a) above as to whether the person with the controlling ownership interest is the beneficial owner or where no natural person exerts control through ownership interests, the identity of the natural person exercising control over the juridical person through other means.</p> <p>Explanation: Control through other means can be exercised through voting rights, agreement, arrangements or in any other manner.</p> <p>c) Where no natural person is identified under clauses (a) or (b) above, the identity of the relevant natural person who holds the position of senior managing official.</p> <ul style="list-style-type: none"> • Copy of the balance sheets for the last 2 financial years. • Copy of latest share holding pattern including list of all those holding control, either directly or indirectly, in the company in terms of SEBI takeover Regulations, duly certified by the company secretary/ whole time director/MD (to be submitted every year) • Photograph, POI, POA, PAN and DIN numbers of whole time directors/two directors in charge of day to day operations. • Photograph, POI, POA, PAN of individual promoters holding control - either directly or indirectly. • Copies of the Memorandum and Articles of Association and certificate of incorporation. • Copy of the Board Resolution for investment in securities market. • Authorised signatories list with specimen signatures. • Copy of the balance sheets for the last 2 financial years (to be submitted every year). |

| | |
|--|--|
| | |
| Partnership firm | <ul style="list-style-type: none"> • Certificate of registration (for registered partnership firms only). • Copy of partnership deed. • Authorized signatories list with specimen signatures. • Photograph, POI, POA, PAN of Partners. |
| Trust | <ul style="list-style-type: none"> • Copy of the balance sheets for the last 2 financial years (to be submitted every year). Where the client is a trust, we shall identify the beneficial owners of the client and take reasonable measures to verify the identity of such persons, through the identity of the settler of the trust, the trustee, the protector, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership. • Certificate of registration (for registered trust only) • Copy of trust deed • List of trustees certified by Managing trustee/CA. • Photograph, POI, POA, PAN of Trustees. |
| HUF | <ul style="list-style-type: none"> • Pan of HUF • Deed of declaration of HUF/List of co-parcners. • Bank statement/Bank Passbook in the name of HUF • Photograph, POI, POA, PAN of Karta |
| Unincorporated association or a body of individuals | <ul style="list-style-type: none"> • Proof of Existence/Constitution document. • Resolution of the managing body & Power of Attorney granted to transact business on its behalf • Authorized signatories list with specimen signatures |
| Banks/Institutional Investors | <ul style="list-style-type: none"> • Copy of the constitution/registration or annual report/balance sheet for the last 2 financial years • Authorized signatories list with specimen signatures |
| Foreign Institutional Investor (FII) | <ul style="list-style-type: none"> • Copy of SEBI registration certificate • Authorised Signatories list with specimen signatures |
| Army/ Government bodies | <ul style="list-style-type: none"> • Self-certification on letterhead. • Authorised Signatories list with specimen signatures • Authorized signatories list with signatures |
| Registered Society | <ul style="list-style-type: none"> • Copy of Registration Certificate under Societies Registration Act. • List of Managing Committee members. • Committee resolution for persons authorised to act as authorised signatories with specimen signatures. • True copy of Society Rules and Bye Laws certified by the Chairman/Secretary. |

F. Additional documents to be taken in case clients want to open accounts in F&O / Currency segments –

Obtaining financial information from client trading in derivatives segment:

1. SPHPL shall review and update periodically client information in the Client Registration Form and are also advised to ensure that client registration details including financial details of the clients are obtained and updated.

2. The member shall collect documentary evidence of financial details provided by the clients who opt to deal in the derivative segment at the time of registration and at the time of annual updation.

An illustrative list of documents which the members may collect from its clients (towards documentary evidence of financial details) is as below:

- a. Copy of ITR Acknowledgement
- b. Copy of Annual Accounts
- c. Copy of Form 16 in case of salary income
- d. Net worth certificate
- e. Salary Slip
- f. Bank account statement for last 6 months
- g. Copy of demat account Holding statement.
- h. Any other relevant documents substantiating ownership of assets.
- i. Self declaration along with relevant supporting.

ANNEXURE 3

AN INDICATIVE LIST OF SUSPICIOUS ACTIVITIES

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

- a. Clients whose identity verification seems difficult or clients appears not to co-operate;
- b. Clients in high-risk jurisdictions or clients introduced by banks or affiliates or other clients based in high risk jurisdictions;
- c. Substantial increases in business volume without apparent cause;
- d. Unusually large cash deposits made by an individual or business;
- e. Clients transferring large sums of money to or from overseas locations with instructions for payment in cash;
- f. Transfer of investment proceeds to apparently unrelated third parties;
- g. Off market transactions in the DP account of the clients;
- h. High trading activity in the relatively illiquid scrips;
- i. Major trading activity in the Z and TtoT category scrips;
- j. Options trading / trading in illiquid scrips wherein client has booked unusual profit or loss which does not commensurate with the changes in the prices of underlying security in the cash segment
- k. High exposures taken by client as compared to income levels informed by clients.
- l. Unusual transactions by “High risk status” and businesses undertaken by shell corporations offshore banks /financial services, businesses reported to be in the nature of export-import of small items.

NSE has issued a circular NSE/INVG/22908 dated March 7, 2013. The circular lays down the guidelines to be followed to monitor surveillance related alerts provided by the NSE from time to time. In this regard process to be followed is provided below –

1. All exchange alerts shall be reviewed by the surveillance team.
2. In case of any suspicious activity observed
 - a. Client would be required to provide explanation
 - b. We may ask clients to provide KYC related information
 - c. Further documentary evidence such as bank and depository account statements may be called for
 - d. Post analyzing the documentation the results for the same would be recorded and in case of adverse remarks the same would be informed to the exchanges within 45 days from the alert date, unless suitable extension is taken from the exchange

ANNEXURE 4

Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of the Banking Companies, Financial Institutions and Intermediaries) Rules, 2005

(Amended as of June 2010)

GSR.444(E).- In exercise of the powers conferred by sub-section (1) read with clause (h), clause (i), clause (j) and clause (k) of sub-section (2) of section 73 of the Prevention of Money-laundering Act, 2002 (15 of 2003), the Central Government in consultation with the Reserve Bank of India, hereby makes the following 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 Banking companies, financial institutions and intermediaries, namely:

1. Short title and commencement

- (1) These rules may be called the Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Rules, 2005.
- (2) They shall come into force on the date of their publication in the Official Gazette.

2. Definitions

- (1) In these rules, unless the context otherwise requires, -
 - (a) "Act" means the Prevention of Money-laundering Act, 2002 (15 of 2003);
 - (b) "client" means a person that engages in a financial transaction or activity with a banking company, or financial institution or intermediary and includes a person on whose behalf the person that engages in the transaction or activity, is acting;
 - (c) "Director" means the Director appointed under sub-section (1) of section 49 of the Act for the purposes of sections 12 and 13 of the Act;

[ca] "non-profit organization" means any entity or organization that is registered as a trust or a society under the Societies Registration Act, 1860 (21 of 1860) or any similar State legislation or a company registered under section 25 of the Companies Act, 1956 (1 of 1956);

 - (d) "officially valid document" means the passport, the driving license, the Permanent Account Number (PAN) Card, the Voter's Identity Card issued by the Election Commission of India or any other document as may be required by Banking company, or financial institution or intermediary;
 - (e) "prescribed value" means the value of transaction prescribed under these rules;
 - (f) "Principal Officer" means an officer designated by a banking company, financial institution and intermediary, as the case may be;
 - (g) "Regulator" means a person or an authority or a Government which is

vested with the power to license, authorize, register, regulate or supervise the activity of banking companies, financial institutions or intermediaries, as the case may be;

- (h) "Suspicious transaction" means a transaction referred to in clause (h), including an attempted 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 proceeds of an offence specified in the Schedule to the Act, regardless of the value involved; or
 - (b) appears to be made in circumstances of unusual or unjustified complexity; or
 - (c) appears to have no economic rationale or bonafide purpose; or
 - (d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism;"]

Explanation:- Transaction involving financing of the activities relating to terrorism includes transaction involving funds suspected to be linked or related to, or to be used for terrorism, terrorist act or by a terrorist, terrorist organization or those who finance or are attempting to financing of terrorism.

- (i) "transaction" includes deposit, withdrawal, exchange or transfer of funds in whatever currency, whether in cash or by cheque, payment order or other instruments or by electronic or other non-physical means.
- (2) All other words and expressions used and not defined in these rules but defined in the Act shall have the meaning respectively assigned to them in the Act.

3. Maintenance of records of transactions (nature and value)

- (1) Every banking company or financial institution or intermediary, as the case may be, [shall maintain the record of all transaction including the record of], -
- a. all cash transactions of the value of more than rupees ten lakhs or its equivalent in foreign currency;
 - b. all series of cash transactions integrally connected to each other which have been valued below rupees ten lakhs or its equivalent in foreign currency where such series of transactions have taken place within a month;
 - c. all transactions involving receipts by non-profit organisations of value more than rupees ten lakh, or its equivalent in foreign currency;"]
 - d. all cash transactions were forged or counterfeit currency notes or bank notes have been used as genuine or where any forgery of a valuable security or a document has taken place facilitating the transactions;
 - e. all suspicious transactions whether or not made in cash and by way of :
 - i. "deposits and credits, withdrawals into or from any accounts in whatsoever name they are referred to in any currency maintained by way of :

- (a) cheques including third party cheques, pay orders, demand drafts, cashiers cheques or any other instrument of payment of money including electronic receipts or credits and electronic payments or debits, or
 - (b) travelers cheques, or
 - (c) transfer from one account within the same banking company, financial institution and intermediary, as the case may be, including from or to Nostro and Vostro accounts, or
 - (d) any other mode in whatsoever name it is referred to;
- ii. credits or debits into or from any non-monetary accounts such as d-mat account, security account in any currency maintained by Banking company, financial institution and intermediary, as the case may be;
- iii. money transfer or remittances in favour of own clients or non-clients from India or abroad and to third party beneficiaries in India or abroad including transactions on its own account in any currency by any of the following :
- (i) Payment orders, or
 - (ii) cashiers cheques, or
 - (iii) demand drafts, or
 - (iv) telegraphic or wire transfers or electronic remittances or transfers, or
 - (v) internet transfers, or
 - (vi) Automated Clearing House remittance, or
 - (vii) Lock box driven transfers or remittance, or
 - (viii) remittances for credit or loading to electronic cards, or
 - (ix) any other mode of money transfer by whatsoever name it is called;
- iv. loans and advances including credit or loan substitutes, investments and contingent liability by way of :
- (i) subscription to debt instruments such as commercial paper, certificate of deposits, preferential shares, debentures, securitized participation, inter-bank participation or any other investments in securities or the like in whatever form and name it is referred to, or
 - (ii) purchase and negotiation of bills, cheques and other instruments, or
 - (iii) foreign exchange contracts, currency, interest rate and commodity and any other derivative instrument in whatsoever name it is called, or
 - (iv) letters of credit, standby letters of credit, guarantees, comfort letters, solvency certificates and any other instrument for settlement and / or credit support

- (v) collection services in any currency by way of collection of bills, cheques, instruments or any other mode of collection in whatsoever name it is referred to

4. Records containing Information

The records referred to in rule 3 [shall contain all necessary information specified by the Regulator to permit reconstruction of individual transaction including] the following information:

- (a) the nature of the transactions;
- (b) the amount of the transaction and the currency in which it was denominated;
- (c) the date on which the transaction was conducted; and
- (d) the parties to the transaction

5. Procedure and manner of maintaining information

- (1) Every banking company, financial institution and intermediary, as the case may be, shall maintain information in respect of transactions with its client referred to in rule 3 in accordance with the procedure and manner as may be specified by [its Regulator], as the case may be, from time to time.
- (2) Every banking company, financial institution and intermediary, shall evolve an internal mechanism for maintaining such information in such form and at such intervals as may be specified by [its Regulator], as the case may be, from time to time.
- (3) It shall be the duty of every banking company, financial institution and intermediary, as the case may be, to observe the procedure and the manner of maintaining information as specified by [its Regulator], as the case may be, under sub-rule (1).

6. Retention of Records of Transactions

The records referred to in rule 3 shall be maintained for a period of five years from the date of transactions between the client and Banking company, financial institution or intermediary, as the case may be.

7. Procedure and manner of furnishing information

- (1) Every banking company, financial institution and intermediary, as the case may be, shall communicate the name, designation and address of the Principal Officer to the Director.
- (2) The Principal Officer shall furnish the information [referred to in clauses (A), (B), (BA), (C) and (D) of sub-rule (1) of rule 3] to the Director on the basis of information available with Banking company, financial institution and intermediary, as the case may be. A copy of such information shall be retained by the Principal Officer for the purposes of official record.
- (3) Every banking company, financial institution and intermediary may evolve an internal mechanism for furnishing information [referred to in clauses (A), (B), (BA), (C) and (D)

of sub-rule (1) of rule 3] in such form and at such intervals as may be directed by [its Regulator]

- (4) It shall be the duty of every banking company, financial institution and intermediary to observe the procedure and the manner of furnishing information as specified by [its Regulator] under sub-rule (3).

8. Furnishing of information to the Director

- (1) The Principal Officer of a banking company, a financial institution and an intermediary, as the case may be, shall furnish the information in respect of transactions referred to in [clauses (A), (B) and (BA)] of sub-rule (1) of rule 3 every month to the Director by the 15th day of the succeeding month.
- (2) The Principal Officer of a banking company, a financial institution and an intermediary, as the case may be, shall furnish the information promptly in writing or by fax or by electronic mail to the Director in respect of transactions referred to in clause (C) of sub-rule (1) of rule 3 not later than seven working days from the date of occurrence of such transaction
- (3) The Principal Officer of a banking company, a financial institution and an intermediary, as the case may be, shall furnish the information promptly in writing or by fax or by electronic mail to the Director in respect of transactions referred to in clause (D) of sub-rule (1) of rule 3 not later than seven working days on being satisfied that the transaction is suspicious:"]

[Provided that a banking company, financial institution or intermediary, as the case may be, and its employees shall keep the fact of furnishing information in respect of transactions referred to in clause (D) of sub-rule (1) of rule 3 strictly confidential.]

9. Verification of the records of the identity of clients

- (1) Every banking company, financial institution and intermediary, as the case may be, shall,
- (a) at the time of commencement of an account-based relationship, identify its clients, verify their identity and obtain information on the purpose and intended nature of the business relationship, and
 - (b) in all other cases, verify identity while carrying out :
 - (i) transaction of an amount equal to or exceeding rupees fifty thousand, whether conducted as a single transaction or several transactions that appear to be connected, or
 - (ii) any international money transfer operations]
- (1A) Every banking company, financial institution and Intermediary, as the case may be, shall determine whether a client is acting on behalf of a beneficial owner, identify the beneficial owner and take all reasonable steps to verify his identity]

[Explanation - For the purposes of this sub-rule "beneficial owner" shall mean the natural person who ultimately owns or controls a client and or the person on whose behalf a transaction is being conducted and includes a person who exercise ultimate effective control over a juridical person.]

- (1B) Every banking company, financial institution and Intermediary, as the case may be, shall exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their

knowledge of the client, his business and risk profile and where necessary, the source of funds.]

- (1C) No banking company, financial institution and Intermediary, as the case may be, shall allow the opening of or keep any anonymous account or account in fictitious names or account on behalf of other persons whose identity has not been disclosed or cannot be verified]
- (1D) When there are suspicions of money laundering or financing of the activities relating to terrorism or where there are doubts about the adequacy or veracity of previously obtained customer identification data, every banking company, financial institution and Intermediary shall review the due diligence measures including verifying again the identity of the client and obtaining information on the purpose and intended nature of the business relationship, as the case may be]

- (2) Where the client is an individual, he shall for the purpose of sub-rule (1), submit to Banking company, financial institution and intermediary, as the case may be, one certified copy of an 'officially valid document' containing details of his identity and address, one recent photograph and such other documents including in respect of the nature of business and financial status of the client as may be required by Banking company or the financial institution or the intermediary, as the case may be :

Provided that photograph need not be submitted by a client falling under clause (b) of sub-rule (1).]

- (3) Where the client is a company, it shall for the purposes of sub-rule (1) submit to Banking company or financial institution or intermediary, as the case may be, ⁴[one certified copy] of the following documents :

- (i) Certificate of incorporation;
- (ii) Memorandum and Articles of Association;
- (iii) a resolution from the Board of Directors and power of attorney granted to its Managers, officers or employees to transact on its behalf; and
- (iv) an officially valid document in respect of managers, officers or employees holding an attorney to transact on its behalf.

- (4) Where the client is a partnership firm, it shall for the purposes of sub-rule (1) submit to Banking company, or the financial institution, or the intermediary [one certified copy] of the following documents :

- (i) registration certificate;
- (ii) partnership deed; and
- (iii) an officially valid document in respect of the person holding an attorney to transact on its behalf

- (5) Where the client is a trust, it shall, for the purposes of sub-rule (1) submit to Banking company, or the financial institution, or the intermediary [one certified copy] of the following documents :

- (i) registration certificate;
- (ii) trust deed; and

- (iii) an officially valid document in respect of the person holding an attorney to transact on its behalf.
- (6) Where the client is an unincorporated association or a body of individuals, it shall submit to Banking company, or the financial institution or the intermediary ⁵[one certified copy] of the following documents :
- (i) resolution of the managing body of such association or body of individuals
 - (ii) power of attorney granted to him to transact on its behalf;
 - (iii) an officially valid document in respect of the person holding an attorney to transact on its behalf; and
 - (iv) such information as may be required by Banking company or the financial institution or the intermediary to collectively establish the legal existence of such an association or body of individuals.

Where the client is a juridical person, Banking company, financial institution and intermediary, as the case may be, shall verify that any person purporting to act on behalf of such client is so authorised and verify the identity of that person.

- (7) (i) The regulator shall issue guidelines incorporating the requirements of sub- rules (1) to (6A) above and may prescribe enhanced measures to verify the client's identity taking into consideration type of client, business relationship or nature and value of transactions.
- (ii) Every banking company, financial institution and intermediary, as the case may be, shall formulate and implement a Client Identification Programme to determine the true identity of its clients, incorporating requirements of sub-rules (1) to (6A) and guidelines issued under clause (i) above.

10. Maintenance of the records of the identity of clients:

- (1) Every banking company or financial institution or intermediary, as the case may be, shall maintain the records of the identity of its clients.
- (2) The records of the identity of clients shall be maintained in hard and soft copies in a manner as may be specified by [its Regulator] from time to time.
- (3) The records of the identity of clients shall be maintained for a period as prescribed under the PMLA 2002 from the date of cessation of the transactions between the client and Banking company or financial institution or intermediary, as the case may be.

[Explanation: For the purpose of this rule :-

- (i) the expression 'records of the identity of clients' shall include records of the identification data, account files and business correspondence.
- (ii) the expression 'cessation of the transactions' means termination of an account or business relationship.]

11. Interpretation

If any question arises relating to the interpretation of these rules, the matter shall be referred to the Central Government and the decision of the Central Government shall be final.

1. Substituted by Rule 2(i) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009. Prior to substitution it read as (c) appears to have no economic rationale or bonafide purpose;
2. Substituted by Rule 2(ii) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2007 for (C)

"all cash transactions were forged or counterfeit currency notes or bank notes have been used as genuine and where any forgery of a valuable security has taken place;"

3. Substituted by Rule 2(iii) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2007 for 8

"Furnishing of information to the Director.

The Principal Officer of a banking company, the financial institution and intermediary, as the case may be, shall furnish the information in respect of transactions referred to in rule 3 every month to the Director by the 7th day of the succeeding month other than transactions referred to in clauses (C) and (D) of sub-rule (1) of rule 3 :

Provided that information in respect of transactions referred to in clauses (C) and (D) of sub-rule

(1) of rule 3 shall be promptly furnished in writing or by way of fax or electronic mail to the Director not later than three working days from the date of occurrence of such transactions.

4. Substituted by Rule 2(iv) (a) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2007 for "three certified copies"
5. Substituted by Rule 2(iv) (b) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2007 for "three copies"
6. Inserted by Rule 2(a) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009
7. Inserted by Rule 2(b) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009

8. Substituted by Rule 2(c) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009. Prior to substitution it read as:

"Suspicious transaction" 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; or
- (d) gives rise to a reasonable ground of suspicion that it may involve financing of the activities relating to terrorism

9. Inserted by Rule 3 of Prevention of Money-laundering (Maintenance of Records of the nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009

10. Substituted by Rule 4 of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking

11. Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009 for "the Reserve Bank of India or the Securities Exchange Board of India or as the case may be"

12. Substituted by Rule 5 of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009 for

6 Retention of records

The records referred to in rule 3 shall be maintained for a period of five years from the date of cessation of the transactions between the client and Banking company, financial institution or intermediary, as the case may be."

13. Substituted by Rule 6 of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009 for "the Reserve Bank of India or the Securities and Exchange Board of India, as the case may be."

Substituted by Rule 7 (a) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of

the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009 for "clauses (A) and (B)"

14. Inserted by Rule 7 (b) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009
15. Substituted by Rule 8 (a) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009 for
 - (a) "Every banking company, financial institution and intermediary, as the case may be, shall, at the time of opening an account or executing any transaction with it, verify and maintain the record of identity and current address or addresses including permanent address or addresses of the client, the nature of business of the client and his financial status;

Provided that where it is not possible to verify the identity of the client at the time of opening an account or executing any transaction, Banking company, financial institution and intermediary, as the case may be, shall verify the identity of the client within a reasonable time after the account has been opened or the transaction has been executed
 - (b) Where the client is an individual, he shall for the purpose of sub-rule submit to Banking company or the financial institution or the intermediary, as the case may be, one certified copy of an officially valid document containing details of his permanent address or addresses, current address or addresses, and one copy of his recent photograph and such other documents including in respect of the nature of business and financial status of the client as may be required by Banking company or the financial institution or the intermediary, as the case may be
15. Inserted by Rule 8 (a) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009
16. Inserted by Rule 8 (b) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009
17. Inserted and substituted by Rule 8 (c) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009
 - (a) Every banking company, financial institution and intermediary, as the case may be, shall formulate and implement a client identification programme which shall incorporate the requirements of the foregoing sub-rules of this rule, and such other additional requirements that it considers appropriate to enable it to determine the true identity of its clients. A copy of the client identification programme shall be forwarded to the Director.

- (b) Substituted by Rule 9 of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2009 for "the Reserve Bank of India"

(c) Substituted by Rule 2(a) of Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2010 for "shall maintain a record of"

- (d) Substituted by Rule 2(b) of Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2010 for "shall contain"

Omitted by Rule 2(c) of Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2010. Prior to omission it read as "in hard and soft copies"

- (e) Substituted by Rule 2(d) (i) of Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2010 for "referred to in rule 3"

- (f) Substituted by Rule 2(d) (ii) of Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2010 for "referred to in rule 3"

- (g) Omitted by Rule 2 (d) (iii) of Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2010. Prior to omission it read as "referred to in rule 3".

- (h) Inserted by Rule 2 (e) of Prevention of Money Laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) Amendment Rules, 2010.

- (i) Inserted by Rule 2 (a) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) **Second** Amendment Rules, 2010.

- (j) Substituted by Rule 2(b) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining

and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) **Second** Amendment Rules, 2010.

Prior to substitution it read as¹⁶“(1A) Every banking company, financial institution and intermediary, as the case may be, shall exercise ongoing due diligence with respect to the business relationship with every client and closely examine the transactions in order to ensure that they are consistent with their knowledge of the customer, his business and risk profile.]”

- (k) Substituted by Rule 2(c) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) **Second** Amendment Rules, 2010.

Prior to substitution it read as : "Every banking company, financial institution and intermediary, as the case may be, shall identify the beneficial owner and take all reasonable steps to verify his identity"

- (l) Substituted by Rule 2(d) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) **Second** Amendment Rules, 2010. Prior to substitution it read as

(1C) No banking company, financial institution or intermediary, as the case may be, shall keep any anonymous account or account in fictitious names.

- (m) Inserted by Rule 2(e) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) **Second** Amendment Rules, 2010.

- (n) Inserted by Rule 2(f) of Prevention of Money-laundering (Maintenance of Records of the Nature and Value of Transactions, the Procedure and Manner of Maintaining and Time for Furnishing Information and Verification and Maintenance of Records of the Identity of the Clients of Banking Companies, Financial Institutions and Intermediaries) **Second** Amendment Rules,2010